



Government of Uganda

Strategies to Promote Economic Growth

Progress Report

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EXECUTIVE SUMMARY

Introduction

The challenge currently facing the Government of Uganda is to implement supply-side reforms that can build on the economic success of the 1990s and return the economy to a growth path of 7% per annum, the rate considered necessary to enable Government to meet its poverty eradication objectives over the longer term.

Five key policy principles underpin the Government's economic growth strategy:

- Maintaining open trade and exchange rate policies, which are key to export-led growth.
- Avoiding Government-induced distortions to resource allocations.
- Commercialising agricultural production.
- Building human capacity.
- Maintaining national security.

The Government has developed the Medium Term Competitiveness Strategy (MTCS), the Plan for the Modernisation of Agriculture (PMA) and the Strategic Exports Programme (SEP) as the key policy programmes through which it will deliver the supply-side reforms judged necessary to boost economic growth by reducing existing barriers to investment and boosting output productivity.

Progress in tackling barriers to investment

Government is committed to promoting private sector investment by reducing the barriers that exist to private sector activity and imposing strict fiscal discipline on its own operations to ensure that it does not crowd out the private sector.

However, co-ordination and monitoring of the implementation of the MTCS, Government's main policy programme for reducing investment barriers, has been hindered to date by the lack of a single over-arching monitoring body to benchmark implementation progress in the various MTCS areas against the programme's objectives.

Notwithstanding the lack of overall MTCS co-ordination, Government has made notable progress in a diverse range of areas such as utility reform, strengthening the financial sector and reforming the Commercial Court. But in some areas, such as improving the operations of the Uganda Revenue Authority and deregulation/better regulation, implementation is still in its early stages, and in others, such as overhauling the Kampala-Malaba railway, there has been almost no progress at all. MTCS implementation is currently patchy, and lacking adequate benchmarks.

Interventions to boost productivity

Government has a number of ongoing programmes to boost economic productivity in Uganda, prominent among which are the PMA and the SEP.

Implementation strategies have now been developed for six of the seven key areas of the PMA, and implementation has started, or is due to start, in most of them. However, successful, comprehensive PMA implementation requires implementation of ongoing institutional reforms within Government to improve service delivery and a strengthened monitoring and evaluation framework to guide future programme delivery.

The SEP has catalysed additional Government intervention in eight strategic export areas, which is ongoing. However, the success of the programme requires full stakeholder involvement, with Government targeting its interventions to activities which can boost productivity without distorting private sector activity. The SEP needs to be fully co-ordinated with the MTCS and the PMA to ensure that the Programme is transparent, avoids duplicating existing activities and delivers value for money.

Key Government Actions

- Establishment of an MTCS Secretariat, guided by the public-private sector partnership MTCS Steering Committee, to co-ordinate MTCS implementation, identifying and resolving constraints to progress, building private sector linkages and benchmarking overall progress against desired programme outputs.

- Establishment of a PMA Monitoring and Evaluation Framework with specific indicators and benchmarks to help assess implementation progress, identify constraints and track outcome delivery.
- Incorporation of the SEP into the MTCS framework to increase the efficiency and transparency of the Programme and to improve its co-ordination with the activities of the PMA and the MTCS.

Conclusion

Focusing on outcome delivery will be critical to the next stage of Government's strategy to deliver economic growth and structural transformation. Without such an approach, it will be extremely difficult to tell whether Government's programmes are meeting their objectives or delivering value for money. In addition, it is only by focusing on outcome delivery that Government can demonstrate to other stakeholders the transparency, equity and effectiveness of its programmes, so that investor and donor confidence, which are in themselves critical to Uganda's economic progress, remain robust.

Introduction

As a result of the economic policy reforms instituted by the Government of Uganda during the 1990s, the growth of real GDP at market prices averaged 7.1% per annum between 1992 and the end of the decade. However, the rate of growth was slightly slower in the second half of the decade, averaging 5.8% per annum, as many of the initial gains arising from these reforms had already been realised. The challenge that the Government of Uganda therefore faced at the start of the new decade was to identify additional reforms which could build on the success of the 1990s and return the economy to a growth path of 7% per annum, the rate considered necessary to enable Government to meet its poverty eradication objectives over the longer term.

Central to Uganda's reforms during the 1990s was the determination to deliver a conducive macro-economic environment that allows the private sector to thrive. The design of the Poverty Eradication Action Plan (PEAP) in 1997 (and its revision in 2000) further deepened the national focus on development programmes to eradicate poverty through raising the incomes of the poor and boosting economic growth. In August 2000 the Government launched both the Medium Term Competitiveness Strategy for the Private Sector (MTCS) and the Plan for the Modernisation of Agriculture (PMA) as tools to address bottlenecks to private sector development and sustained economic growth. The MTCS outlined the Government's five year plan for a series of cross-cutting structural reforms aimed at improving the business environment for the private sector and boosting domestic economic activity, whilst the PMA outlined a series of multi-sectoral interventions aimed at improving agricultural productivity in order to boost output and increase the incomes of the poor.

In May 2001, an Economic Growth and Transformation Strategy paper was presented to the Consultative Group (CG) meeting. The paper built on strategies set out in the MTCS and the PMA by highlighting the actions required to remove existing barriers to investment within the economy, and recommending a series of Government interventions to boost

output potential in strategic economic areas, particularly exports. It was accompanied by a one-year action plan for the Financial Year 2001/2. Whilst the paper's recommendations on barriers to investment were already broadly covered by ongoing work under the MTCS, the Government responded to the recommendations on strategic interventions by setting up the Strategic Exports Programme (SEP) to work in tandem with the PMA.

The purpose of this paper is to outline to the May 2003 Consultative Group meeting the Government of Uganda's progress in implementing its current strategies to boost economic growth, looking broadly at the MTCS, the PMA and the Strategic Exports Programme, and using the May 2001 paper's recommendations as a further guide. Where appropriate, the paper will address issues omitted in the May 2001 paper which are nonetheless considered relevant to Uganda's economic growth. The paper will also flag up areas where further work, or a re-assessment of appropriate policy interventions, is required, thus feeding into the longer-term work on economic growth planned which will be ongoing in 2003 as a part of the Poverty Eradication Action Plan (PEAP) revision.

The paper is divided into four main sections:

Section 1: Principles underlying Government policies on economic growth.

Section 2: Progress in tackling barriers to investment.

Section 3: Interventions to boost productivity.

Section 4: Conclusion.

Section 1: Principles underlying Government policies on growth

The Government of Uganda is committed to placing trade at the heart of its poverty eradication objectives, both by creating a facilitating environment for it, and by ensuring that the country has the necessary human capacity to take advantage of it. The most important requirement for raising long-term growth rates in Uganda is continuous improvement in the productivity of factors of production – labour, capital, land and technology. While increased investment will undoubtedly also contribute to higher growth rates, a policy strategy which emphasises investment at the expense of factor productivity is likely to be counterproductive. Recent research has demonstrated that long run growth in low-income countries depends more on improving productivity than on raising investment rates.¹

Productivity needs to be improved throughout the economy, but especially in agriculture, where it is lowest among the major sectors of the economy², and where the vast majority of Ugandans, including the poorest and many women, are employed³. There are five basic requirements for improving productivity:

- maintaining a competitive exchange rate and open trade policies
- avoiding creating distortions to resource allocation
- stimulating the commercialisation of agriculture
- building human resource capacities
- ensuring national security.

The following sections will outline the principles underlying Government's policies in each of these areas in turn.

¹ IMF Working Paper WP/02/131 – Will there be new Emerging-Market Economies in Africa by 2020?

² The real growth rate of the agricultural sector has been below the average rate of real GDP growth for the last four financial years

1.1 Open trade and exchange rate policies

The Government of Uganda believes that open trade policies and a competitive real exchange rate are critical to successful export performance. In turn, it believes that strong export-led growth is the key to maintaining and improving growth performance in Uganda, because exports provide both opportunities and incentives for exploiting comparative advantage, enhancing technological progress and reaping economies of scale in a small, open economy.

Empirical research clearly shows that lower trade barriers lead to faster growth.⁴ By contrast, trade barriers shift incentives away from exports and therefore inevitably damage export growth, while doing nothing to encourage efficient industrial production. Uganda made substantial progress in reducing trade barriers during the 1990s but trade reform has now slowed. The status and adequacy of Uganda's trade reform programme needs to be reviewed in the context of the PEAP revision.

The Government of Uganda also believes that an appropriate exchange rate policy is crucial to export-led growth because the real exchange rate affects the competitiveness of export production. Investment in non-traditional export industries will be discouraged if the real exchange rate is too high to provide adequate profit margins for investors. In Uganda, the biggest influence over the exchange rate is the volume of aid flows which are spent in the domestic economy. Because most Government expenditure is on non-traded goods, Government spending which is funded by aid inevitably appreciates the real exchange rate. The policy implication of this is that, even though Government budgeting prioritises spending in areas key to growth and social services provision, there are limits on the amount of aid which can be absorbed in the domestic economy without jeopardising an export-led growth strategy. Over the last four years, aid inflows have increased by about four percentage points of GDP, causing the real exchange rate to appreciate, despite a steep decline in coffee prices, indicating that the current level of aid as a percentage of GDP (about 12% of GDP) is too high to be compatible with export led growth. To address this

³ Preliminary results from the 2002 Uganda National Household Survey show that 56% of employed, economically active people work in the agriculture and fisheries sector

problem, the Government of Uganda is committed to a fiscal deficit reduction strategy which will see more growth in public expenditure funded by increased domestic revenues, thus easing the pressure on the real exchange rate, as well as to economic growth strategies aimed at boosting the rate of GDP growth.

1.2 Avoiding distortions to resource allocation

Because resources, such as capital, are scarce in Uganda, it is vital that they are allocated as efficiently as possible. In the main, the Government of Uganda believes that market forces provide the best means of allocation, and Government interventions to redirect resources, through, for example, tax incentives or subsidised credit, tend to create market distortions, undermine investor confidence and impede growth. The Government's economic policies are built on the principle of providing public goods which will assist the private sector to make efficient decisions about resource allocations of its own accord. However, in the limited cases where the Government believes there is need to provide incentives for private sector activity because the market is not functioning properly, it is committed to do so in an open and transparent way.

1.3 Commercialisation of agriculture

Given the importance of agriculture to the economy⁵, and as a source of income for the majority of households in Uganda⁶, a sustained increase in the productivity of agriculture is central to economic development. It is also central to enhancing the opportunities and livelihoods of the poor⁷, although Government policies need to be explicitly supportive of gender equality if agricultural commercialisation is to be of equal benefit to women.⁸ The modernisation of agriculture is dealt with in more detail later in this paper, so this section will only outline the principles of government policy in this area. Agricultural production is a commercial activity and as such should be carried out by the private sector. As outlined in the previous section, Government's role is to provide public goods and services

⁴ Sachs and Warner (1997) and Ng and Yeats (1999).

⁵ Uganda Bureau of Statistics: Agriculture currently accounts for approximately 40% of GDP

⁶ UNHS 2000 – agriculture accounts for 45% of all household income

⁷ Appleton 2001 – 81% of households living in poverty in 1999/00 have household heads employed in the agricultural sector

⁸ Keller 2002: Engendering Uganda's Poverty Eradication Initiatives

which complement private investment in areas which cannot be undertaken optimally by the private sector alone. Such activities include agricultural research and extension activities, the enforcement of minimum standards for export produce, and infrastructure provision and maintenance. However, Government is fully aware that its definition of the private sector must include small-scale entrepreneurs, and its provision of public goods must be targeted in such a way that they are pro-poor and supportive of gender equality, if Uganda is to benefit fully from agricultural modernisation. The Plan for the Modernisation of Agriculture has been built on this approach, and will be discussed in greater detail later in this report.

1.4 Building human capacity

Building human capacity takes time, and requires consistent, broad-based policy implementation if it is to yield the desired results in terms of economic growth and poverty eradication. In the long run, the Government of Uganda believes that providing basic education for all of the population will be one of the most important policy measures which it can take to expand the economy and reduce poverty in Uganda. The rapid economic growth achieved by most of the East Asian “tigers” in the 1970s and 1980s was preceded by major investments in basic education. Uganda has already made important strides through the policy of Universal Primary Education (UPE), but given that education already absorbs more than 20% of the GOU budget, further expansion of access to education to encompass universal secondary education will only be possible if the unit costs of education are reduced. Furthermore, primary education will only be a first step towards capacity building in Uganda. The private sector needs to invest in human resources development directly (e.g. private training facilities), and in partnership with the Government, so that unit labour productivity can compete with international standards.

Provision of other social services, such as improved access to health care and safe water and sanitation are also crucial to building human capacity. Ill health is cited by poor people as the most frequent cause of poverty⁹. Time lost when sick, and for women

⁹ Uganda Participatory Poverty Assessment Process Report 2003

especially, time spent taking care of the sick, reduces productivity¹⁰, whilst the cost of care directs scarce resources away from other productive investments, uses up savings and leads to the sale of assets. Whilst the Government has made significant progress over the past decade in improving access to health care facilities in Uganda¹¹, it is now also beginning to focus its policies on improving the quality of service provision, and the availability of essential drugs, especially for the poor, to further reduce the impact of ill-health on productivity in Uganda. Issues relating to Government's progress in providing key social services in order to enable it to meet its poverty eradication goals will be covered in greater detail in the accompanying CG paper on Uganda's progress in attaining its PEAP targets, but it is nonetheless important to make the link between poverty eradication policies and economic productivity here.

Looking at human capacity from a different angle, recent studies have identified that Government action to support capacity at the farm level, particularly in terms of collective farmer marketing, will be crucial to the successful modernisation of agriculture.¹² This area will be covered in greater detail later in this paper, but it is raised here to demonstrate the diverse range of areas in which Government interventions to boost human capacity are critical to improving economic performance and eradicating poverty in Uganda.

1.5 Ensuring national security

Whilst the economic and social policy reforms introduced by the Government since the early 1990s have had a significant impact on Uganda's rate of GDP growth, and have led to a significant reduction in overall poverty levels¹³, the persistent insecurity in Northern Uganda has led to an increase in poverty levels in the region, and a collapse in economic production. The variance in economic performance and poverty reduction across different regions of Uganda arising from insecurity illustrates the importance of security in fostering a conducive environment for economic growth. The Government is fully aware that

¹⁰ Eg; The Commission on Macroeconomics and Health 2001: high malaria prevalence can be associated with a reduction of economic growth of 1% per year or more

¹¹ UNHS 2002/3 Mid Term Report – 78% of Ugandans were living within 3km of a health facility in 2002, as compared to 66% in 1996

¹²Uganda Participatory Poverty Assessment Process Report 2003

¹³Uganda National Household Survey 2000

policies to promote economic growth need to be complemented by policies that ensure that all Ugandans have equal opportunity to access means of production, and that growth is promoted in areas of the country which have not benefited fully from Government's economic policies to date, such as Northern Uganda, owing to ongoing insecurity. A separate paper on this issue is due to be presented to the Consultative Group meeting.

1.6 Summary

The Government of Uganda is committed to placing trade at the heart of its poverty eradication objectives. To do so, it is committed to creating a conducive macro economic environment for sustained economic growth, and to making the requisite investments in improving productivity and human capacity. Five key policy principles underpin its growth strategy:

- Maintaining open trade and exchange rate policies, which are key to export-led growth. As a part of this, Government is committed to reducing its fiscal deficit to a level that is compatible with a competitive real exchange rate.
- Avoiding Government-induced distortions to resource allocations. Government's role is to provide public goods which will assist the private sector to make efficient decisions about resource allocations of its own accord. In the limited cases where there is need to provide incentives for private sector activity because the market is not functioning properly, the Government is committed to do so in an open and transparent way.
- Commercialising agricultural production. A sustained increase in the productivity of agriculture is central to Uganda's economic development; agriculture is a backbone of the economy, an important source of income for the majority of households in Uganda, and critical to the livelihoods and opportunities of the poor.
- Building human capacity. Investments in education, basic health care and water and sanitation are all essential if Uganda is to raise the productivity of its workforce.
- Ensuring national security. Uganda will only maximise its economic growth potential if all Ugandans have secure access to productive opportunities.

Section 2: Reducing barriers to investment

2.1 Overview

Whilst Uganda's investment levels have historically been comparatively low, the economy has nonetheless grown at a fairly rapid pace over the last twelve years, implying that the economic and structural reforms the Government has undertaken so far have generated large productivity gains. Investment in Uganda rose from 16% of GDP in 1991/92 to 20.7% of GDP in 2001/02, which is one percentage point higher than the average investment rate for African countries between 1991-2001.¹⁴ However, higher levels of private investment will be required in future to sustain rapid economic growth in Uganda. The Government believes its key roles in stimulating investment are to create a secure and conducive economic environment for private sector development, and to develop a reliable, transparent and efficient business infrastructure.

Firstly, Government is committed to ensuring that its own operations do not crowd out the private sector from domestic financial markets, which means that the size of its budget deficit and its domestic borrowing requirement must be strictly controlled. Too large a government deficit will crowd out the private sector, either through real exchange rate appreciation or through a squeeze on private sector borrowing.

Secondly, the Government is of view that it is not appropriate for it to attempt to raise investment levels in Uganda by financing the private sector. It is of the opinion that, in the main, the private sector is not hindered by a lack of available finance, but by a lack of bankable projects which commercial lending institutions consider to be credit-worthy. Moreover, it would not be feasible for Government to finance the needs of the private sector, even if it were to wish to do so. The total level of private investment in 2001/2 was Shs 1,546 billion. Even if Government were to extend Shs 100 billion of additional finance to private investors from its own budget, which would be equivalent to 20% of the current Development budget, it would only increase private investment by 6%. As stated earlier in

¹⁴ UNCTAD Least Developed Countries Report 2002: the average investment rate for African countries 1991-2001 was 19.8% of GDP

this paper, the Government's economic policies are built on the principle of providing public goods which will assist the private sector to make efficient decisions about resource allocations of its own accord, and direct investment incentives will only be provided in the limited cases where the Government believes that the market is not functioning properly.

As outlined in the MTCS and the PMA, the Government is committed to raising investment levels by reducing supply-side barriers to private sector investment such as poor transport and utilities infrastructure, excessive bureaucratic red-tape, weak judicial processes, corruption, shallow financial markets and weak farm-level organisation and marketing skills. Many of these issues are cross-cutting to both the PMA and the MTCS, but this section of the paper will deal with Government progress in tackling those issues which constitute barriers to investment, and therefore in the main fall under the auspices of the MTCS, whilst the following section will address the implementation of programmes designed to enhance productivity, looking in particular at the PMA and the Strategic Exports Programme.

2.2 Challenges within the MTCS

The MTCS is itself a crosscutting programme; six key output areas were identified in the strategy document approved by Parliament in August 2000 (Infrastructure, Financial Sector, Commercial Justice, Institutional Reforms, Micro and Small Enterprises and Trade/Globalisations). The broad-ranging nature of the strategy has created significant challenges in monitoring its implementation to date, leading some stakeholders to conclude that the MTCS has failed to make its potential impact thus far¹⁵. The reality is that programme implementation has been going on semi-independently in certain policy areas designated as falling within the remit of the MTCS, such as infrastructure reform, commercial justice reform, deregulation, whilst in other areas, such as micro and small enterprise capacity development, the policy framework has remained largely undeveloped¹⁶. There has been no single mechanism for monitoring the progress of MTCS

¹⁵ Law & Development Partnership Ltd 2002 - Monitoring the Uganda Medium Term Competitive Strategy

¹⁶ MFPEd 2002: Institutional Arrangements for co-ordination and monitoring of the MTCS and Strategic Exports Programme in conjunction with the PMA

implementation and co-ordinating the activities of the various programmes which fall within its remit.

This lack of effective MTCS co-ordination has created a further weakness, whereby the linkages between the implementation of the MTCS, the PMA and the Strategic Exports Programme have not been sufficiently clearly defined and operationalised, leading to duplication and a lack of synergy which is sub-optimal; if it were to persist, the Government of Uganda's ability to meet its economic growth and structural transformation objectives would be impeded. The Government has therefore decided to tackle these problems by setting up an MTCS Secretariat, which, guided by the public-private partnership MTCS Steering Committee, will take responsibility for moving work forward in those MTCS areas where there has been little implementation to date, developing private sector linkages, monitoring and benchmarking the outputs of the entire MTCS programme against the desired programme objectives, and recommending and operationalising institutional and programme changes where necessary. It will also work closely with the PMA Secretariat, ensuring that crosscutting policy areas receive adequate and co-ordinated coverage under both programmes, and it will co-ordinate the Strategic Exports Programme.

In the absence to date of an overall monitoring mechanism for the MTCS, the remainder of this section will give an overview of developments in specific programme areas falling within the remit of the MTCS. The task of linking these developments to private sector outcomes will be greatly facilitated in the coming months by the completion of the Uganda Investment Authority's 2002 Investor Survey, and the World Bank's Investment Climate Assessment Survey, which will be accompanied by an Administrative and Regulatory Cost Survey. This will significantly strengthen the MTCS input into the forthcoming PEAP revision.

2.3 Implementation Progress

2.3.1 Utility Services and Infrastructure Development

The cost and unreliability of both utility services such as electricity, water, and telecommunications, and infrastructure provision such as road, rail and air transport, have long been considered by investors to be a severe obstacle to investment in Uganda.¹⁷ However, considerable progress has been made in some of these areas over the past two years, particularly in utility services reform.

▪ Electricity

The reliability of mains supply electricity has improved over the past two years, reducing the level of excess demand on the system, and the resulting load-shedding, which has historically been very disruptive to business¹⁸. However, some investors still have to make use of their generators part-time.¹⁹ To the extent that reliability of electricity supply has improved, it has done so for two reasons. Firstly, three additional generating units have come on stream at the Owen Falls extension, known as Kiira Power Station, which has increased the amount of electricity generated from 180MW (the output of the original Owen Falls station) to 300MW. Another two units, totalling 80MW, are expected to come on stream at Kiira by 2004, bringing the total capacity of the Jinja stations to 380MW, more than double their output at the start of 2001. In addition, the amount of distribution losses in the electricity system have been reduced by 25% over the past year, from 37% of system output to 27%, as the Uganda Electricity Board (UEB) has upgraded parts of the transmission system and embarked on a targeted campaign to reduce power theft (Operation Sigma). However, construction of the Bujagali dam, which was expected to commence this financial year, has been postponed for the foreseeable future, pending further inquiries into the procurement process.

Separately, the Government's Privatisation Unit has made considerable progress in privatising the operations of UEB. Eskom, a South African power company, was awarded a 20 year concession to operate the Jinja power stations in November 2002, and a similar

¹⁷ UNCTAD 2000 – Investment Policy Review, Uganda

¹⁸ UNCTAD 2000 – Investment Policy Review, Uganda

distribution concession is expected to be awarded by the end of the 2002/03 Financial Year. Introducing private sector management and expertise into the operations of the power sector is expected to improve its efficiency considerably, to the benefit of all mains-power consumers, including investors.

However, it continues to be the case that only 5% of the Ugandan population have access to mains electricity, predominantly in urban areas, with only 1% of the rural population having access to grid-supplied electricity. This places potential investments in agro-processing in Uganda at a considerable disadvantage.²⁰ The Government's Energy for Rural Transformation Strategy seeks to accelerate the expansion of access to electricity in the rural areas, but is still only in its initial stages. It aims to increase electricity access in rural areas from 1% to 10% by 2012. This is to be achieved through several delivery mechanisms including grid extension, solar PVs, and development of other renewable energy resources. It is to be implemented in partnership with key production and human resources sectors such as agriculture, health, water and education. Target areas are to include district headquarters, trading centres, agro-processing areas, schools, health centres and rural water supply units through the private sector, NGOs, local governments and communities.

A Rural Electrification Agency (REA) has been established and an Executive Director is to be appointed soon. Fast track projects will include: West Nile Power Project including generation of hydro electric power from river Nyagak; Kakira Co-generation Project to produce 7 MW of electricity from a by-product of sugar cane; Kanungu-Rukungiri-Bushenyi Power Project involving construction of a 2.5MW hydro-electric power on River Ishasha; and Kisiizi project which will upgrade the current hydro-electric supply 0.2MW.

▪ **Water**

In advance of its 2002 Investor Survey, the Uganda Investment Authority (UIA) has reported that from an investor perspective, there has been a considerable improvement in

¹⁹ East Africa Association Questionnaire Results 2003

²⁰ MTTI 2002 – Strategy for agricultural marketing and agro-processing under the PMA

mains water services provision over the past two years, such that access to water is no longer considered a major investment constraint. However, the Privatisation Unit's plans to prepare the National Water and Sewerage Company (NWSC) for privatisation, which is expected to improve the efficiency of water services delivery, are only in the very early stages. The process for procuring a transaction adviser is currently in progress.

Separately, Government needs to continue implementing its plans to improve the access of the population to safe water supplies within a reasonable walking distance of their homes and to good sanitation facilities, particularly in rural areas, to reduce on the number of labour days lost to poor health. The Mid-Term Report of the 2002/03 Household Survey shows that 25% of the population do not have access to safe drinking water, as compared to 44% in 1996.

▪ **Telecommunications**

At the time of the May 2001 CG paper, the liberalisation of the telecommunications industry was already bringing considerable benefits to consumers, in terms of increased access to communication services, and the state of the sector was no longer considered a significant barrier to investment. Since then, the Telecommunications sector has expanded significantly, particularly with respect to mobile phone usage. The number of telephone subscribers in Uganda has risen by 200% in just over two years, from 230,000 in 2000 to just under 500,000 at the start of this financial year. The increase has been driven by mobile telephones, where increased competition has brought down prices and new connections can be made instantly. Mobile phone users now account for 90% of all telephone users in Uganda. Moreover, Uganda's teledensity, measured as the number of telephones per 1000 people, has more than doubled, from 1.07 telephones per 1000 people in 2000 to 2.25 telephones at the start of this financial year. The number of internet service providers in Uganda has also risen significantly, from 11 in 2000 to 17 at the start of the financial year.

More than 50% of sub-counties in Uganda now have access to the telecommunications network. However, it is widely recognised that rolling out the network to a number of the

remaining sub-counties is unlikely to be considered commercially viable by communications providers. Consequently, a Universal Service Levy (USL) has begun to be levied on the turnover of the telecommunications and postal sectors to finance the Rural Communications Development Fund. The proceeds of the USL will be used to finance investment subsidies to private operators willing to take on service obligations in commercially non-viable rural areas. The objectives of the Fund are a sub-component of the Government's Rural Energy for Transformation scheme. Its main objectives are to provide at least one public telephone per 5,000 people at sub-county level, and to ensure internet access at every District headquarters.

- **Roads**

Within the roads sector, the state of Uganda's feeder roads (now known as district roads) continues to present the greatest barrier to investment and economic growth. The poor state of feeder roads, particularly during the rainy season, can pose a considerable hindrance to rural farmers wishing to take their goods to market. When the roads are not passable, farm produce is either wasted or sold at very low prices in the local market. This situation is exacerbated by poor post-harvest storage facilities and inadequate farm-level organisation.

The Government's ten-year road development programme, launched in 1996, focused on the rehabilitation of main roads (known as national roads). The programme made use of an economic model to prioritise the rehabilitation and maintenance of main roads based on their relative cost and benefit. However, interventions to rehabilitate and maintain feeder roads were made on a more adhoc basis. In 2002 the Government updated its ten-year road development plan to cover all roads, national, feeder and urban, and the World Bank is assisting it to expand its prioritisation model accordingly. However, even with the expansion of the model, so that work on the most economically beneficial feeder roads is given priority within the Government's plan, timely feeder road maintenance still faces significant capacity constraints at local government level, particularly in terms of contract procurement. The second phase of the World Bank's Local Government Development

Project (LGDP), which will start next financial year, aims to set out robust procurement guidelines for districts and to build capacity to implement them at both the central Government and district level.

▪ **Railways**

The state of Uganda's railways has not improved since the CG paper of May 2001. It remains the case that the poor state of the Kampala-Malaba line significantly increases the cost to business of transporting goods to and from Mombasa. At present, approximately 90% of goods go by road and only 10% by rail. Although there is little difference between road and rail in terms of Freight On Board (FOB) transportation costs from Kampala to Mombasa, rail journeys have no fixed departure times and take at least twice as long as road journeys, leading most transporters to choose to go by road, given the ready availability of trucks. However, if the Kampala to Malaba line was in a good condition, and being managed efficiently, the cost of transportation by rail could be at least twenty per cent lower than by road,²¹ which would be a significant benefit to business. At present, the transportation premium imposed on business by the inadequate state of the railways is as much as \$20/tonne. In addition, a fully functioning railway would be likely to be of direct benefit to Government in terms of reduced national road maintenance costs. Haulage companies currently require twenty to thirty trucks to transport the same load by road as could be transported in a single rail journey.

The Privatisation Unit has already procured a transaction adviser with respect to the privatisation of Uganda Railways, and the first phase of due diligence is currently in progress. The privatisation process is scheduled to be complete by the end of Financial Year 2003/04. Key issues to be resolved in that time include passing new legislation to liberalise the sector, setting up an appropriate regulatory framework and negotiating viable working arrangements with Kenya Railways Corporation. As a part of this, the Government of Uganda intends to encourage the newly established East African community to redouble its efforts to achieve a fully integrated East African rail network.

²¹ Source: Maersk Shipping

According to the Privatisation Unit, just under a million tonnes of goods are transported by rail in Uganda each year. It is envisaged that the volume could rise to 2.5m tonnes by the fifth year of any concession arrangement (i.e. 2008/09), excluding the Tororo-Pakwach and Kampala-Kasese lines. There might be further in-country transportation potential for these lines if they are included in the concession, and there is greater security in northern Uganda and the Democratic Republic of Congo.

- **Air**

One notable improvement in this sector since the May 2001 CG paper has been the removal of Entebbe Handling Services' (ENHAS) monopoly at Entebbe Airport. The introduction of competition is expected to be of significant benefit to investors over the longer term, both in terms of the cost and provision of handling services, though currently the storage facilities at Entebbe (particularly cold-storage capacity) still require improvement, particularly if Uganda is to boost its production of agricultural exports such as fresh fruits and vegetables.

2.3.2 Administrative and institutional barriers to investment

An over-regulated, un-transparent and poorly-enforced institutional framework, particularly in the areas of law and taxation, is a significant disincentive to investment, not only because of the time taken to comply with regulations, but also in terms of unnecessary regulatory costs placed on business, the wide scope for corruption on the part of Government officials, and the uncertain business environment it creates. The October 2000 Regulatory Cost Survey²² found that taxation, customs and business start-ups were the three regulatory areas which imposed the greatest costs on businesses in Uganda. Whilst there appears to have been some progress in terms of institutional reforms in these areas since the May 2001 CG paper, recent work by the World Bank/IFC Foreign Investment Advisory Service (FIAS)²³ shows that there is still a long way to go before Uganda's business environment creates a positive incentive for informal companies to become part of the formal sector, and gains a

²² The Deregulation Project, MFPED October 2000 – The Uganda Regulatory Cost Survey

²³ FIAS 2003 – Aide Memoire; Uganda Administrative Barriers to Investment Update

reputation amongst investors as being fair and transparent, with low transaction costs, as Table 2.1 demonstrates.

Table 2.1: Transparency International's Corruption Perception Index²⁴

	2001	2002
Kenya	2.0	1.9
Malaysia	5.0	4.9
Mauritius	4.5	4.5
Singapore	9.2	9.3
South Africa	4.8	4.8
Tanzania	2.2	2.7
Uganda	1.9	2.1
Zambia	2.6	2.6

(1=Very Corrupt; 10=Corruption Free)

▪ **Commercial Justice**

The Government's Commercial Justice Reform Programme (CJRP) has made significant headway since May 2001 in reforming Kampala's commercial court, which is central to commercial dispute resolution, particularly in terms of its efficiency and transparency. The time taken for a case to come to trial can be as little as two months, whereas previously it could take upward of a year. However, the programme has yet to make much headway in terms of reforming the two business registries, though it has made more progress with the company registry than the land registry. Going forward, in addition to furthering its work on the registries, the programme also intends to explore ways of providing alternative mechanisms to the commercial court up-country, and to help address some of the current problems in the magistrates courts, such as multiple adjournments and corruption. The purpose of these reforms is to reduce institutional transaction costs imposed on businesses operating in Uganda.

▪ **Better Regulation and Deregulation**

The Government's Deregulation Project has done a considerable amount of work since its September 2000 Regulation Survey in sensitising stakeholders as to the meaning of business-friendly regulations which do not impose unnecessary costs on business, and

capacity building amongst relevant institutions, including Parliament, in terms of regulatory best practice assessment techniques. Furthermore, as mandated by the Deregulation Steering Committee, which is a partnership between Government and the private sector, it is currently piloting a new approach to business licensing in Entebbe Municipality, with the aim of improving the efficiency and transparency of the business licensing system; according to the FIAS, World Bank data on business entry procedures shows that Uganda has 17 separate procedural requirements, as compared to 11 in Kenya and 7 in Malaysia and Singapore. The objective of the Deregulation Steering Committee is that after piloting, the new, streamlined licensing system should be implemented at all levels of Government.

Table 2.2: Number of procedures required for business start-ups ²⁵

	Procedures	Duration (days)
Kenya	11	68
Malaysia	7	56
Singapore	7	8
South Africa	9	32
Tanzania	13	37
Uganda	17	36
Zambia	6	40

Source: World Bank

However, in spite of this progress, deregulation and regulatory best practice cannot be the preserve of one project; they need to be fully co-ordinated and mainstreamed into Government thinking. As a first step, Government has recently agreed that the Deregulation Project, the Law Reform Commission and the Local Government Development Project will all use the same template for streamlining business licensing, an issue over which there had been a degree of confusion. However, concerns remain over the inherent tension between the scope given to Local Governments by the Local Government Act to use business licences to generate revenue, and the stated objective of Government to minimise the regulatory cost burdens placed upon business. Government is currently exploring ways to deal with these issues, one of which could be to require that Local Governments can only impose a single super-license upon businesses, instead of

²⁴ FIAS 2003 – Aide Memoire; Uganda Administrative Barriers to Investment Update

requiring that they hold multiple licenses, thus reducing the administrative burden placed on businesses.

There is also considerable concern at present at lack of co-ordination in other areas that have adverse regulatory implications for businesses; some of the laws currently being re-drafted by the Uganda Law Reform Commission (ULRC) and relevant line ministries are not being subject to regulatory best-practice assessments during the drafting process, and may therefore result in legislation which is not conducive to a business development. Government urgently needs to review all laws that potentially impact on business with a view to minimising their associated costs whilst delivering the required legal framework, and to strengthen the regulatory best-practice assessment capacity of the ULRC.

▪ **Tax Administration**

Uganda's central Government tax policy framework was overhauled as a part of the economic reforms of the 1990s, and is in line with international best practice. However, the business community still encounters significant problems in dealing with tax administration, which is bureaucratic, time-consuming and often arbitrary, and offers significant scope for corruption on the part of officials, particularly in the area of Customs administration. The Uganda Revenue Authority (URA) has started to attempt to address these problems in the past year. The new Commissioner General has launched a business plan for the Authority, and URA's operations are in the process of becoming modernised and computerised. Moreover, the institution of the Ssebutinde Commission demonstrates more broadly a commitment on the part of Government to tackle Uganda's tax administration problems.

Nonetheless, URA is currently only at the start of its reform process; the efficiency and transparency of tax administration still needs to improve significantly, and URA needs to develop a client-orientated approach to tax collection. The recent FIAS report states that whilst some of the more recent developments at URA, such as the separation of its tax collection and assessment functions, and the institution of the Tax Appeals Tribunal, have

²⁵ FIAS 2003 – Aide Memoire; Uganda Administrative Barriers to Investment Update

significantly improved tax administration, others, such as recent inspection regulations for the Duty Drawback scheme, are both cumbersome and inefficient. Moreover, the application of the Customs Code and the interpretation the Tax Code continue to provide significant scope for corruption. The Government expects URA to tackle such issues as a part of its ongoing reform programme.

Separately, at the local Government level, both tax policy and tax administration are of significant concern. Anecdotally, small scale agricultural producers and entrepreneurs consider local tax structures, and their mal-administration, to be a significant deterrent to local enterprise²⁶, and yet local government administrations report that raising local revenue is becoming increasingly difficult; local tax revenue collections grew by less than 5% per annum between 1998/99 and 2000/01, and on average funded less than 12% of District expenditures in 2000/01. The Local Government Finance Commission Committee on Revenue Enhancement is currently reviewing local taxation policies and their implementation to ensure that they do not constitute an unnecessary barrier to economic development, and poverty eradication, at the local level. Their recommendations will be implemented by the second phase of the Local Government Development Project. However, this issue, and its potential solutions, needs to be explored in greater detail in the context of the PEAP revision.

2.3.3 Access to Capital

Uganda's private sector enterprises claim to be hindered by lack of access to investment capital. In part, their problems have stemmed from lack of collateral, particularly amongst smaller investors²⁷, but they also arise from a lack of capacity amongst the private sector to present bankable projects to lending institutions. Commercial Bank prime lending rates have declined considerably between FY 2000/01 and FY 2001/02, from an average of 20% or more, to an average of 12-15%. This decline was partly as a result of increased competition in the sector resulting from the sale of Uganda Commercial Bank (UCB) in early 2002, and partly because banks' returns on Government treasury bills declined

²⁶ Uganda Participatory Poverty Assessment Process (UPPAP) December 2002: National Report (Final Draft)

significantly as treasury bill rates fell during 2001/02. Nonetheless, private sector credit only grew by 4.2% last financial year, whilst Commercial Banks' held high levels of excess reserves.

At an aggregate level, the situation has improved this financial year. As at the end of February 2003, private sector credit had expanded by 23.5%, or shs 155bn, since the start of the financial year, although this growth was accompanied by an increase in prime lending rates to the 16%-18% range, mirroring the increase in treasury bill rates which occurred as a result of a decline in demand for Government Securities as private sector lending expanded. However, the bulk of this new lending has been to Commercial Banks' existing large corporate client base; very little of it has been to new clients or to small and medium enterprises. It remains the case that Commercial Banks are currently reluctant to diversify their loan portfolios, although the low returns earned on treasury bills in 2001/02 encouraged them to increase their lending to blue chip corporate clients.

Whilst the reluctance of the Commercial Banks to lend to the private sector partly stems from the sector's history of non-performing assets, it has more to do at present with a lack of bankable private sector projects, particularly given the high degree of competition existing within the banking sector. The private sector, through the Private Sector Foundation, as a part of its work on the MTCS, urgently needs to take steps to improve its capacity in this area. The Government believes that strengthened business capacity at the small and medium enterprise level is the key to improving their access to finance. It does not believe that there is any merit in Government itself financing enterprises which cannot access commercial credit; not only would this be detrimental to the investment environment in Uganda, but it would be unlikely to boost productivity, since the key constraint is on the demand side, not the supply side.

However, there has been a notable increase in non-commercial bank financing to the private sector through the formal financial system, such as lease financing and credit from

²⁷ According to the 2002/3 UNHS Mid Term report, only 40% of Ugandans live within 10km of a source of credit that does not require collateral, although this is a 10 percentage point improvement on 1996.

non-bank financial institutions. The total volume of leasing activity in the banking system had reached Shs 15.8 billion as at end June 2002, whilst total private sector credit extended by non bank financial institutions was shs 64.7 bn, an increase of 29% on the June 2000 position, with the bulk of the lending going to the construction sector. These developments are a welcome indication of the degree of financial deepening which is occurring in Uganda's financial sector.

▪ **Financial Institution Reforms**

The sale of UCB to Stanbic Bank in 2002 represented a significant step forward in terms of resolving outstanding issues in the financial sector. It is expected to strengthen the bank's corporate governance, improve management and upgrade its technology. This will increase competition in the financial sector, which in turn is expected to lead to greater mobilisation of deposits and allocation of credit. In addition, the Bank of Uganda closed two weak banks in August 2002, demonstrating its continued commitment to strong financial sector regulation. It will be assisted in this role by the passing of the Financial Institutions Bill, which awaits approval by the parliament. The Bill will further enhance the prudential regulation of the banking sector by bringing Uganda's financial legislation into line with international best practice. The Bill seeks to maintain a regulatory and supervisory framework that encourages innovation and efficient competition in financial services based on prudent risk taking and the avoidance of reckless and abusive bank management.

In addition, under its current Poverty Reduction and Growth Facility (PRGF) programme with the IMF, the Government has pledged to remove the monopoly of the National Social Security Fund (NSSF). The removal of NSSF's monopoly will provide a much-needed supply of longer-term capital to the Capital Market, assisting businesses which wish to raise finance through corporate bonds.

▪ **Micro Finance**

The provision of financial services to the poor, for the purpose of encouraging the growth

of micro and small-scale income generating activities, as well as fostering the development of a savings culture, offers a major opportunity for economic growth poverty eradication in Uganda, and is a key component of both the MTCS and the PMA. A Ministry of Finance Survey of over 1,000 Micro Finance institutions²⁸ in 2002 revealed that they had just under 1 million members, and a total loan portfolio of Shs 86.5bn; the average loan size was Shs 262,533. In order to encourage and consolidate the industry's growth, Government is committed to developing a comprehensive policy framework for the Micro Finance Industry which will address its legal and regulatory environment, and assist with capacity building

As a first step, the Micro Finance Bill, which will regulate deposit-taking Micro Finance Institutions (MFIs), was passed by Parliament in November 2002. The Act, which will allow MFIs that meet prudential requirements to take deposits for on-lending, is only likely to apply to the very largest MFIs. Simultaneously, the Government has developed a plan for expanded outreach of sustainable micro-finance organisations in Uganda. The purpose of the plan, which will operate as part of the PMA, is three-fold; to promote capacity building and product development for MFI's, to promote capable private sector service providers, and to ensure an enabling policy and regulatory environment for the industry. The Government will work with the national Micro Finance Forum, and its local subsidiaries, to achieve these objectives.

2.3.4 Vulnerability to Exogenous Shocks/Reliability of Supply

Whilst the May 2001 CG paper did not go into much detail in these areas, it was correct to flag them up as a critical to Uganda's productive capacity, particularly in the agricultural sector. Unless Uganda builds capacity to enable it to mitigate the impact of exogenous shocks, particularly bad weather or adverse external price shocks, on its output, investment at the farm level will continue to be weak, and Uganda will be unable to access international markets where the reliability of supply, in terms of both quality and quantity, is key. Although many of the research-based and agricultural extension interventions

²⁸ MFPEd Nov. 2002 – Preliminary Analysis of the National Baseline Survey of Micro Finance Institutions in Uganda

required in this area will be covered in the next section of this paper, three specific issues will be addressed here.

- **Commodity Price Insurance**

The World Bank's Commodity Risk Management Group has launched a price insurance pilot in Uganda, which currently focuses on the coffee sector. It has been operating in Uganda since 2000, building awareness amongst relevant institutions, both at the trader and farmer level, of the benefits that price insurance can bring, particularly in terms of improving short to medium term income reliability, thus enabling farmers to plan farm-level investments over a longer time horizon. In July 2002, with technical assistance from the World Bank, three farmers organisations in Uganda jointly purchased a commercial price insurance premium through a traders' association. On the specified delivery date, the prevailing market price was below the insured price floor, and the farmers' organisations received a payout covering the difference from their insurers. This kind of initiative, which is wholly private-sector based, could be of significant benefit to the agricultural sector in Uganda, but it requires strengthened organisation at the farmer level and considerable capacity building, in terms of improved understanding of how price insurance works, if it is to succeed.

- **Improving Farm Level Organisation**

As a part of the PMA, the Government is trying to strengthen existing farmers and traders associations and mobilise new ones in areas of the country where they do not currently exist. The purpose of this initiative is to improve marketing capacity at the producer and trader level. In coming together to market their goods in bulk, farmers and traders are in a better position to negotiate a fair market price for their output, and to guarantee the quality of their supply. The Ministry of Trade, Tourism and Industry (MTTI) also intends to work with a private sector provider to deliver timely market information to the farmers and traders to assist them in this process.

In addition, MTTI, again under the auspices of the PMA, has set up a Commodities

Exchange, through which farmers' associations and traders can sell their goods to the market. The Commodities Exchange system will assist in price revelation and will be linked to a new warehouse receipt system, which will guarantee the quality and volume of goods of the associations wishing to trade on the Exchange, and can also be used as collateral for accessing credit. The Exchange became operational in March 2003, although it is still developing its trading systems, sensitising farmers groups and recruiting members. The aim is for it to trade 100million tonnes of goods per annum, primarily in non-traditional agricultural products, and to become self-financing within three years. In its first month of operation, it has traded 297 tonnes of simsim, maize and soya.

▪ **Product Standards**

Much of Uganda's ability to benefit fully from increased access to external markets will depend on the quality and consistency of its output. The Uganda National Bureau of Standards is the designated lead body in terms of standards development and product certification in Uganda. However, its capacity and coverage at present are extremely limited. It has only 350 product standards in place, and has no mandate to enforce them, and at present only 38 products are certified under its product certification scheme, thus covering only a fraction of private sector industries in Uganda. Food labelling for agricultural products for export, certifying that they are organically grown or not genetically modified, is being carried out by external certification bodies due to lack of national capacity.

The area of product standards and certification needs to be paid much greater attention in future work on economic growth, since it is through delivering certified quality products to external markets that Ugandan producers will be able to extract the appropriate premium for their output. The capacity of the UNBS needs to be enhanced, such that it can take a lead in working with the private sector industries, assisting them with product certification and labelling which meets the quality requirements of customers in external markets.

2.3.5 Regional Integration and Trade Agreements

Whilst the May 2001 CG paper made no reference to Uganda's participation in regional and international trade agreements, analysis of this area of trade policy should not be neglected in future work, since it has a significant bearing on Uganda's prospects for export-led growth.

In terms of regional integration, Uganda's main focus over the past two years has been the revival of the East African Community (EAC), with Kenya and Tanzania. The Treaty for the establishment of the EAC was drawn up in 1999, and ratified in 2000. Since then, implementation of the diverse elements of the Treaty has been in progress. The East African Customs Union (EACU) is central to the Community's common trade regime, which is based on the principle of free internal trade and common external tariffs. The EACU is due to be fully operational by November 2003. Agreement has been reached so far on all aspects of the EAC's internal trade regime, including a common EAC competition policy, on which Uganda's draft competition law is based, anti-dumping provisions and a timetable for the elimination of internal tariffs. All internal tariffs will be at 0% by 2008. Most aspects of the policy on common external tariffs have also been agreed upon, although the rate of the highest of the three agreed tariff bands is still under negotiation, and agreement needs to be reached on the treatment of certain sensitive products such as sugar and cigarettes within the banding system. The institutional, legal and administrative structure for the EACU will be developed in the course of the coming year. In addition to the EACU, the EAC also intends to build up its development strategy to boost the economic output of the Community through supply-side interventions, particularly in the areas of agriculture, energy and infrastructure.

More broadly, in terms of international trade agreements, Uganda has set up an in-country inter-institutional trade committee, to attempt to co-ordinate and strengthen Uganda's input into trade negotiations at all levels. Uganda is also working with the other member countries of the EAC, to strengthen its negotiating role at larger trade bodies such as COMESA and the WTO. Nonetheless, Uganda still needs to build its national capacity to understand fully the cost and benefits of participation in specific trade-access agreements

such as AGOA (US) and Everything but Arms (EU). Uganda's greatest constraint in participating in these agreements tends to be on the supply-side, in terms of its limited ability to deliver products of a consistent volume and quality in a timely manner. The Ministry of Trade, Tourism and Industry is currently attempting to develop a comprehensive and pro-poor national trade policy with donor support, and will be undergoing a capacity building programme.

2.4 Summary

- Government is committed to promoting private sector investment by reducing the barriers that exist to private sector activity and imposing strict fiscal discipline on its own operations to ensure that it does not crowd out the private sector.
- Co-ordination and monitoring of the implementation of the MTCS, Government's main policy programme for reducing investment barriers, has been hindered to date by the lack of a single over-arching monitoring body to benchmark implementation progress in the various MTCS areas against the programme's objectives.
- Notwithstanding the lack of overall MTCS co-ordination, Government's utility reforms are yielding considerable results. Although there is further work to be done, utility services present less of a barrier to private sector investment than they were two years ago.
- The poor state of Uganda's railways continues to place an unnecessary cost burden on businesses transporting goods to and from Mombasa, and on Government in terms of road maintenance costs. Improvement of district feeder roads remains critical to increasing agricultural productivity.
- Uganda Revenue Authority has begun the process of overhauling its operations to increase the transparency and efficiency of central tax administration, and reduce corruption.
- The formal financial sector has benefited from the resolution of Uganda Commercial Bank, and banking regulation will further be strengthened by the enactment of the Finance Bill. The Micro Finance sector has benefited from the passing of the Micro Finance Act, and the Government's Micro Finance Outreach Plan is intended to further

strengthen the regulatory framework and capacity of the sector.

- Significant progress has been made in reforming Kampala's Commercial Court and starting the process of business licensing reform, but Uganda's law reform process appears to be moving forward in certain areas without rigorous analysis of the potential regulatory cost to business.
- Uganda's capacity to analyse the export opportunities available to it as a result of bilateral and multilateral trade agreements remains severely limited.

2.5 Key Government Actions

- Establishment of an MTCS Secretariat, guided by the public-private sector partnership MTCS Steering Committee, to co-ordinate MTCS implementation, identifying and resolving constraints to progress, building private sector linkages and benchmarking overall progress against desired programme outputs.
- Developing analytical capacity within the Ministry of Trade, Tourism and Industry to assess the potential opportunities offered by multilateral and bilateral trade agreements and to guide Uganda's response to them.

Section 3: Interventions to Boost Productivity and Rural Incomes

As explained in the first section of this paper, the Government of Uganda believes that continuous improvement in the productivity of factors of production is critical to achieving the high levels of long run growth upon which Uganda's poverty eradication objectives are based. Therefore, in addition to its work aimed at reducing barriers to private sector investment, it is currently implementing a series of programmes aimed at boosting output productivity, particularly in agriculture, given Uganda's strong endowment of agricultural land, and the dependence of the majority of the poor on agriculture for their livelihoods. This section of the paper will review Government's progress in implementing these programmes.

3.1 The Plan for Modernisation of Agriculture (PMA).

Cabinet approved the PMA in August 2000 and since then work has been ongoing to put in place the necessary institutional arrangements and implementation strategies to enable it to meet its objectives of transforming the productivity of the agricultural sector, thereby stimulating economic growth and increasing the incomes of the poor. The Government believes that modernising the agricultural sector is the fastest way of propelling the economy's process of structural transformation and poverty reduction, as opposed to strategies such as import substitution, which have a very poor record of promoting economic development. Institutional reforms to enhance the efficiency and effectiveness of public service provision are critical to such a strategy.

3.1.1 Progress in implementing the PMA

A multi-stakeholder steering committee chaired by the Permanent Secretary /Secretary to the Treasury functions as the Policy, Planning and Financing Forum for the PMA implementation process, and is serviced by a small, multi-sector secretariat (the PMA Secretariat). Most of the implementation frameworks for the seven PMA priority areas have been designed and are operational.

- **NAADS**

The National Agricultural Advisory Services (NAADS) programme was approved in 2001 and is being implemented in 100 sub-counties in 16 districts. The success of the NAADS programme depends on farmers forming strong associations. Farmers' fora at sub-county level are provided with resources to enable them to articulate their priorities and contract private sector advisory service providers. Through the program, resources are also made available for technology development and dissemination. The lessons learnt over the two-year pilot phase are to be used in defining the pace of expansion into new districts and sub-counties and also provide guidance in helping the many existing projects and programmes with extension service components to rationalise and harmonise their activities.

- **NARS**

A review of the National Agricultural Research System (NARS) was completed in 2002 and Cabinet approved a new Agricultural Research Policy in March 2003. The reformed National Agricultural Research Organisation (NARO) is to provide an umbrella body that will embrace both public and private sector research entities and provide mechanisms for greater participation of lower level structures (communities, farmer associations and local governments) in defining and funding research priorities through competitive research grants. A National Agricultural Research Bill is being drafted to provide the legal and regulatory framework for the implementation of the new proposals. Broad donor support has been mobilised for the new research initiatives.

- **Micro Finance Outreach**

The PEAP, PMA and MTCS identify the lack of financial services to the poor as a major constraint to the development of the private and agricultural sectors, and all three frameworks acknowledge the role that micro finance can play in overcoming this constraint. The details of the Government's work on Micro Finance is dealt with greater detail in section 2.3.3 of this paper. As outlined in that section, the Government's Micro Finance Outreach Plan, which is a part of the PMA, will begin to be implemented next financial year.

- **MAPS**

The PMA recognizes that improved market access is a key condition for the transformation of the agricultural sector from subsistence farming to commercial production. The PMA Steering Committee has approved the Marketing and Agro Processing Strategy (MAPS), which aims to enhance the provision of market information to farmers and traders, to improve farmer organization and to introduce quality standards and improved post-harvest technologies. The various components of the strategy are to be implemented through existing MTCS and PMA programmers. A market information and dissemination service is being established as a part of NAADS; NARO is conducting research into improved post-harvest technologies, and farmers will be trained in optimal storage management practices; capacity development of farmers associations take place under NAADS; the Uganda Commodity Exchange (UCE) is already trading in grains and other agricultural commodities while a Warehouse Receipt System (WRS) bill is before Cabinet. Detailed work is being undertaken to operationalize the WRS next financial year. In addition, a functional analysis of the Ministry of Tourism, Trade and Industry (MTTI) is to be undertaken during the next financial year to ensure that the structure and staffing of the Ministry is consistent with the marketing and agro-processing strategy.

- **Physical Infrastructure**

As outlined in Section 2.3.1, the ten-year road sector strategy has been under implementation for some time, a ten-year district road development programme (DRDP) is being developed and the Energy for Rural Transformation (ERT) strategy is also being implemented.

- **Sustainable Natural Resource Utilization and Management**

The PEAP recognises that sustained economic growth requires prudent use of natural resources, and work is ongoing to ensure that sustainable natural resource use is mainstreamed into Government's economic growth programmes. The Land Sector Strategic Plan (LSSP) is being implemented and provides a conducive framework for the implementation of the Land Act. The National Forestry Policy was approved in 2001 and a

National Forestry Authority Bill is before Parliament, while the Wetlands Strategy is under implementation. In order to keep environmental concerns at the centre of the PEAP and the PMA implementation processes, an Environment and Natural Resources Sector Working Group has been established to develop an environment and natural resources sector strategy through a sector-wide approach (ENR SWAP). This will help integrate environment and natural resources concerns into the budget process and the revision of PEAP.

▪ **Agricultural Education**

A Task Force to develop the National Agricultural Education Strategy (NAES) was recently launched and is expected to produce a strategy within the next six months. This will be the last of the seven PMA strategies to be developed. It will aim at ensuring that education contributes to orienting stakeholders to view as a business and develop appropriate skills among producers, marketing agents, processors, exporters and service providers for the commercialisation of agriculture.

▪ **Cross-Cutting Issues**

A number of recent reports have highlighted the importance of tackling crosscutting issues, such as the empowerment of women in agriculture and the impact of HIV/AIDS on agricultural productivity, to the success of the PMA. Two recent reports^{29 30} show that women face a number of micro-level constraints to increasing cash crop production which arise from unequal gender relations. A third report³¹ commissioned by NAADS details the impacts of HIV/AIDS on household agricultural production; they include reduced income, higher food insecurity and a higher dependence on less-labour intensive production methods. A number of these issues are already being tackled under the different PMA areas, but details of how they are being tackled, and the linkage to desired outcomes in these areas, need to be drawn out more fully. Consistent with the UPPAP findings which show that poverty is complex, multidimensional and location specific, the PMA non-sector conditional grant, which aims to provide communities with funds to prioritise and

²⁹ Uganda Participatory Poverty Assessment Process Report 2003

³⁰ Ex ante Poverty and Social Impact Analysis: Uganda Demonstration Exercise October 2002; Booth, ODI

³¹ Makerere University Institute of Social Research March 2003: Impact of Aids on Agriculture in Uganda

implement programmes that contribute to poverty reductions, is also helping to address crosscutting issues within the implementation of the PMA.

3.1.2 PMA Implementation Challenges

As with the MTCS, it is notable that as yet there is no single monitoring mechanism for the PMA which can benchmark implementation progress against the desired outcomes of the Programme, thus highlighting areas where further work is required. However, a Monitoring and Evaluation Framework with specific indicators and benchmarks has recently been designed; it will be linked to the proposed annual Joint Donor/Government reviews for the PMA process. This Framework, working in conjunction with the parallel MTCS Framework, should significantly strengthen the implementation process of the PMA, ensuring that it is closely targeted to achieving the strategy's desired outcomes.

In addition, institutional reforms in implementing institutions need to be extended within Government; delays in implementing the functional analysis in MAAIF, putting in place new staffing arrangements for local governments consistent with the NAADS programme, and the merger of UIA, UEPB and UTB are otherwise likely to hinder Government's success in achieving its PMA objectives.

Separately, whilst there is strong donor desire to support the implementation of the PMA programmes, PMA expenditures have to be compatible with Government's overall budgetary constraint. Provision of adequate funding to the PMA programmes within the limits of that budget constraint will be critical to its success.

3.2 The Strategic Exports Programme (SEP)

Over the last four decades, four major commodities, namely coffee, cotton, tea, and tobacco, have dominated Uganda's export sector. However, these commodities have traditionally been exported in raw form without any significant value addition. Over the last decade, Uganda has seen considerable diversification into non-traditional exports which have higher added value. Non-traditional exports in aggregate now earn more than

cotton, tea, tobacco and cotton combined, accounting for 64% of all goods exports.³²

Taking these two trends together, Uganda's particular interest in promoting exports is to ensure that it captures additional value from its traditional export base and further diversifies into higher-value non-traditional export production. As explained in Section 1 of this report, the Government of Uganda believes that creating an environment which is conducive to export-led growth is critical to Uganda's future growth prospects, since the domestic market is small, and the purchasing power of the population is weak.

Whereas programmes under the PMA are designed to boost agricultural productivity across the board, the Government believes there is also a need to catalyse production in certain key export areas through additional strategic interventions. Such interventions involve providing farmers with high quality planting and stock materials; implementing fast track amendment and enactment of relevant laws and regulations that are supportive of the strategic investment areas; promoting the production of high value-added, quality products through processing and other specialised techniques such as organic production; accelerated skills development in strategic areas such as textiles and garment production, information and telecommunication technology (ICT) and international trade negotiations.

3.2.1 Progress in implementing the SEP

In September 2001, Government approved a programme to intervene in the following sectors: Coffee, Cotton, Fish, Tea, Livestock, Horticulture, Irish potatoes and ICT. About shs 50 billion was identified within the budget to undertake selected interventions in the eight sectors in FY 2001/02. In FY 2002/03, additional resources (about shs 40 billion) were secured in the budget for the programmes.

Provisional SEP targets envisage a doubling of export values in dollar terms in selected strategic export areas between 2001/02 and 2005/6, as shown in Table 3.1 below.

³² Non-traditional export earnings amounted to \$290m in FY 2001/2, as compared to \$163m for cotton, coffee, tea and tobacco.

Table 3.1: Actual and Projected Export Earnings in SEP sectors (\$m).

Sector	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Coffee	186.87	109.68	85.25	100.8	114.78	155.34	209.58
Tea	26.56	27.76	26.85	29.47	33.70	37.14	39.38
Livestock:	6.15	22.7	19.65	18.44	20.69	23.13	26.19
Fish	16.71	44.05	80.85	104.85	113.85	115.34	123.29
Cotton	19.73	14.08	13.30	19.67	26.64	34.46	44.30
Horticulture:							
a) Flowers	3.80	13.22	20.68	26.88	34.95	41.95	46.14
b) Fruits & Vegetables	2.60	2.31	2.77	3.33	3.99	4.79	5.75
Total	262	234	249	303	349	412	495

Consultations have been made with development partners and the private sector in identifying areas where interventions are likely to yield greatest results without crowding out private sector activities. A number of achievements have been recorded as summarised in Table 3.2 below.

Table 3.2. Achievements Under the SEP, September 2001 to March 2003.

Area	Achievements/Outputs.
1. Coffee	46.2 m seedlings distributed to 200,000 households; 16 wet processing machines with an annual capacity of 20,000 m tons imported; two coffee shops opened in China; Five brands of coffee available on the market; organic coffee certification initiated in four regions for 16,000 farmers.
2. Tea	300,000 improved clones imported for multiplication; Five million plantlets distributed to 1300 farmers; over 100 nursery operators trained and 150 nurseries with a capacity of 9 million seedlings operational; 500 hectares of tea rehabilitated.
3. Livestock	300 heifers and 200 bulls of local cattle for research purposes procured; 545 Boer goats (245 bucks and 300 does) imported for improvement of local breeds; 1,285 kgs of improved pasture seed procured and farmers trained in various skills (tea nursery, pasture and hides and skins management); 16 valley dams completed and new laws and regulations formulated for the sector.
4. Fish	Lake surveillance, control and monitoring (SCM) and enforcement of regulations intensified; 20 dams stocked with 3,000,000 fish fry; and contracts for construction of 3 landing sites awarded.
5. Cotton	Three delinting machines procured, 7,000 tons of seeds distributed; a tractor leasing facility initiated for cotton farmers; investment in textile and garment production for export under AGOA initiated,

6. Horticulture	315 farmers trained in nursery management in 11 districts; 35 farmers trained in export marketing; 10 exporters trained on how to approach and penetrate the EU market; 35,000 stock seedlings being raised; 4 mother gardens for passion fruits, mangos and avocado being raised; organic exports being promoted through certification; Mobuku irrigation scheme supported to improve water flow for irrigation of crops; solar driers acquired for processing apple banana and other fruits and 3 charcoal coolers and collection centres being constructed
7. Irish Potato	Farmers trained in clean seed production; a tissue culture facility designed and construction commenced; 900 quality seed procured and distributed.
8. ICT	Two companies offering Call Centre and Data Entry services to North America, respectively; training in data entry and telemarketing for 120 persons initiated; a draft ICT law drafted.

In addition to the interventions listed above, the Government has supported individual private sector investors in accessing funds through the Uganda Development Bank (UDB) for undertaking investment in textiles and garments as part of the initiatives to enhance Uganda’s ability to export under AGOA. Other incentives are being considered for large-scale investments in various sectors including the Oil Palm industry, coffee processing and horticulture.

3.2.2 SEP Implementation Challenges

As with the PMA and the MTCS, the first eighteen months of the SEP programme have demonstrated that there is a critical need for a robust institutional monitoring and evaluation arrangement to increase the efficiency and transparency of the Programme, and to make the vital link between the programme’s inputs and the achievement of its desired outcomes. Such a framework would also assist in tracking the value for money of the Programme, and would facilitate strengthened co-ordination with the activities of the PMA and the MTCS. The Government has committed to delivering such a framework through the MTCS Secretariat, which is currently being established within the Ministry of Finance.

In addition, the inclusion of key stakeholders in the identification of the “strategic” interventions and the implementers of such interventions is critical to the successful realization of the Programme’s intended objectives. Rigorous cost-benefit analyses are also essential for guiding the type and pace of any given intervention and to avoid diverting

government resources (human and financial) from implementing broadly agreed programmes such as the PMA and the MTCS. This demands considerable analytical work and broad-based consultation, which will be delivered through the MTCS Secretariat, in consultation with other stakeholders.

3.3 Tourism Development

Tourism is currently Uganda's biggest exporter earner. Earnings from tourism amounted to approximately \$160m in 2001/02, as compared to \$85m for coffee, and accounted for 25% of overall export earnings in Uganda.³³ Tourism earnings have increased six fold since 1991-92, and their share of total exports has risen by fifteen percentage points. However, the development of the tourism sector continues to be hampered by poor infrastructure, variable standards and incidents of insecurity in and around some of the major national parks.

A draft tourism policy document has recently been put to Cabinet which sets out a strategy to develop the tourism sector in Uganda over the next five years. The strategy is based on marketing Uganda as a niche tourism destination, offering specialised environmental, cultural and activity-based tourism. Implementation of this strategy will require work in a number of key areas, including improving the image of Uganda as a tourism destination abroad and strengthening the capacity of the private sector to develop, maintain and market high quality services. The Ministry of Trade, Tourism and Industry (MTTI) is working with the Uganda Tourism Association to develop appropriate industry-wide standards, but the association will require strengthening if it is to pass them on to private-sector operators. The Hotels Act and Tourist Agents Licensing Act need to be updated to bring them into line with the industry standards that are being developed, and MTTI also needs to build capacity at the district level if there is to be effective monitoring of the standards.

Effective implementation of this strategy will require considerable funding, which means that expenditure on it will need to be prioritised within MTTI's budget allocation if it is to receive the necessary funds. A large proportion of the work currently on-going in the

³³ Source: Bank of Uganda

sector is funded by adhoc donor projects, such as the EU project to build private-sector capacity and the World Bank project to support the Uganda Wildlife Authority and museums.

3.4 Enhancing Industrial Productivity

Under the framework of the MTCS, MTTI has developed a draft Strategic Framework for Industrialisation in Uganda, which should be translated into a five-year implementation strategy by the end of the financial year. The aim of the framework is to strengthen human capacity in the industrial sector, focusing particularly on research and development, human resource management, and promoting Small and Medium Enterprises (SMEs). One of the key proposals within the strategy is that each district should develop a serviced industrial area for SMEs. Not only should access to power and water boost productivity for the SMEs involved, but being in a defined area will make it easier for extension services to be extended to them. Three districts have already incorporated proposals for such areas within their district plans.

3.5 Summary

- Government has a number of ongoing programmes to boost economic productivity in Uganda, prominent among which are the PMA and the Strategic Exports Programme (SEP).
- Implementation strategies have now been developed for six of the seven key areas of the PMA, and the seventh will be developed in the next six months. Of the six strategies with approved implementation plans, NAADS implementation is already ongoing, and parts of other strategies are already being implemented under existing Government programmes. The rest are due to commence implementation shortly.
- Successful, comprehensive PMA implementation requires a strengthened monitoring and evaluation framework to guide future programme delivery and ongoing institutional reforms within Government to improve service delivery.
- The SEP has catalysed additional Government intervention in eight strategic export

areas. However, the success of the programme requires full stakeholder involvement, with Government targeting its interventions to activities which can boost productivity without distorting private sector activity. Moreover, the SEP needs to be transparent and fully co-ordinated with the MTCS and the PMA to ensure that the Programme is avoiding duplicating existing activities and delivering value for money.

3.6 Key Government Actions

- Establishment of a PMA Monitoring and Evaluation Framework with specific indicators and benchmarks to help assess implementation progress, identify constraints and track outcome delivery.
- Incorporation of the SEP into the MTCS framework to increase the efficiency and transparency of the Programme and to improve its co-ordination with the activities of the PMA and the MTCS.

Conclusion

At the time of the PEAP revision in 2000, the PMA and the MTCS were developed as the recognised Government frameworks for delivering two pillars of the PEAP, namely, rapid economic growth and structural transformation, and increasing the ability of the poor to raise their incomes. However, it has taken a time to design the implementation frameworks for these programmes, and to commence the implementation phases. As a result, the process of output delivery has only just begun, and there are few measurable outcomes from the programmes so far. There are also, as yet, no robust monitoring mechanisms in place to benchmark programme delivery against desired programme outputs, to identify and resolve constraints to programme delivery or to ensure adequate MTCS/PMA co-ordination.

Partly as a result of the slow pace of implementation of the PMA and MTCS, and because of its commitment to a strong export-led growth strategy, Government decided in September 2001 to complement the work of the PMA and the MTCS by initiating a Strategic Exports Programme (SEP) to target specific interventions to strategic export areas. However, the design of the SEP was not arrived at through broad consultation with stakeholders, leading to initial concerns that the programme was lacking transparency, duplicating the roles of the PMA and the MTCS and failing to deliver value-for-money.

Government has responded to these issues in a number of ways. It has established an MTCS Secretariat to co-ordinate MTCS implementation, which, guided by a public-private partnership Steering Committee, will focus on building public-private sector linkages and ensuring the delivery of MTCS programme outcomes. In addition, it has decided to bring the SEP within the MTCS framework so that the SEP is clearly defined in relation to both the MTCS and the PMA. It has also developed a PMA Monitoring and Evaluation Framework, which will link into an annual stakeholder review of PMA implementation progress. The purpose of these developments are threefold; to facilitate co-ordination of the PMA, the MTCS and the SEP, to enable Government to identify and resolve

implementation constraints, and to track outcome delivery.

Focusing on outcome delivery will be critical to the next stage of Government's strategy to deliver economic growth and structural transformation. Without such an approach, it will be difficult to tell whether Government's programmes are meeting their objectives or delivering value for money. In addition, it is only by focusing on outcome delivery that Government can demonstrate to other stakeholders the transparency, equity and effectiveness of its programmes, so that investor and donor confidence, which are in themselves critical to Uganda's economic performance, remain robust.