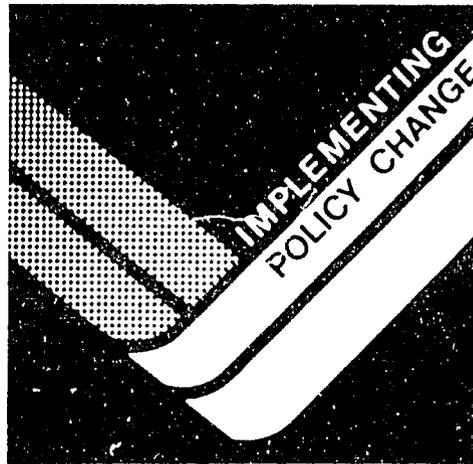


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STATUS REPORT: UGANDA NATIONAL FORUM ON STRATEGIC MANAGEMENT FOR PRIVATE INVESTMENT AND EXPORT GROWTH

August 1994



Contractor Team:

Management Systems International
(lead contractor)

Abt Associates Inc.

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United States Agency for International Development
Bureau for Research and Development
Project #936-5451

S T A T U S R E P O R T

**National Forum on Strategic Management
for Private Investment and Export Growth
Uganda**

August 1994

The IPC Team:

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STATUS REPORT

National Forum on Strategic Management for Private Investment and Export Growth Uganda

BACKGROUND 1989 - The Strategic Management Approach and Process

"Strategic management" offers a set of tools that can help convert policies into effective actions. Strategic management begins with a mind set, a set of themes that makes up the strategic perspective.

- The strategic approach is **ORIENTED TOWARD THE FUTURE**. It recognizes that the environment will change, and that one must try to anticipate events rather than simply react to them. While the future cannot be controlled, by anticipating the future individuals and organizations can help to shape and modify the impact of change.
- The strategic perspective **FOCUSES** as much on **EXTERNAL ORGANIZATIONAL FACTORS** as on internal ones. In particular, the strategic perspective recognizes and takes into account politics and the exercise of external political authority. Organizational managers must remain sensitive to the needs of and respond to demands of constituents, among whom political leaders are especially important.
- The strategic perspective is **SENSITIVE TO CHANGING ENVIRONMENTS**. Under conditions of rapid political, economic, and social change, strategies can quickly become outmoded; or resources traditionally required by organizations to achieve their aims may suddenly become unavailable. The strategic perspective recognizes the need to maintain a close fit with the environment and modify organizations as the environment evolves.
- The strategic perspective is **PROCESS-ORIENTED**. It recognizes the need to be open to changing goals; it is a process that requires monitoring and review mechanisms capable of providing information to managers.

Taken together, these attitudes and behaviors are really a way of thinking about and approaching the issue of managing policy change. Working from the strategic perspective, we can develop the strategic management approach to problem-solving. This approach has nine phases:

1. Determine who is to be included in the process. Three types of individuals should be considered for inclusion, those who have: direct responsibility in implementation of policy; a major stake in the outcome of the policy; and specialized knowledge that can add to the analysis of the policy to be implemented. While relatively broad participation is to be encouraged, after a point there is a trade-off between expanding participation and maintaining the ability to take agile decisions.

2. Clarify the mission and the objectives.
3. Identify strengths and weaknesses. Is there the wherewithal to achieve the stated objectives or to put into motion its strategies? What are the levels of internal resources possessed by various organizations? How available are they? What tasks can be done well, which cannot?
4. Identify constituents, and their expectations and resources. What do particular groups want? Are there interests shifting?
5. Identify key strategic issues. Tackling a few issues comprehensively and effectively is far preferable to addressing many issues halfheartedly. "Focus, focus, focus."
6. Design strategies to resolve the problems that have been identified. Generally, more than one option for dealing with the problem should be identified; then the various options can be compared for viability, feasibility, and desirability. Effective strategies are practical rather than theoretical; they have the capability to be accomplished and are acceptable to those involved in carrying them out.
7. Commitment to the action plan. The action plan is a statement of what, who, when, and how the actions necessary to carry out the strategy will be done. Performance goals and objectives will also be specified.
8. Implementation consists of actions aimed at marshalling and applying resources to the specifics of the action plan.
9. Finally, monitoring and review of performance, and any follow-up needed to achieve the goals.

Strategic Management was introduced in Uganda in 1989 as an experiment prior to the onset of the Implementing Policy Change (IPC) Project. It was thought at that time that "some" effort was needed to build understanding and facilitate action towards privatization. While the strategic management effort was not successful in stimulating the implementation of privatization it did introduce a process for identifying stakeholders, mapping the political "turf," establishing alliances, identifying issues, presenting actions to be taken and continuing ongoing dialogue.

PHASE ONE 1992 - Participation in Governance

An Introduction to Strategic Management as a Tool for Policy Implementation

The National Forum was initiated in 1992 under the IPC Project to focus and energize action on the various government policies and programs, and the private initiatives, that were already under way in the area of private investment and export development. The goal was to seek

more effective implementation of those policies and initiative which enjoy broad national support with emphasis on implementation action. A strategic approach was needed, involving the participation of the private as well as the public sector. USAID provided the technical support.

The "Forum" was designed to be the centerpiece of a broader process of continuing dialogue and problem solving. The initial working group was broadened to form a Task Force composed of key individuals from government and the private sector. This Task Force undertook the detailed planning of the Forum developed and refined the key issues and decided on a final format for the initial conference. The Task Force designed the Forum so that, as a product of the plenary Working Group sessions, a series of Action Plans would be developed for moving forward in discrete areas with specific time tables and assigned responsibilities. A Monitoring Group was established to monitor implementation and achievement of the Action Plans.

The participants in the Forum were a highly targeted group of individuals who have the capacity and the potential to make things happen in Uganda. The sense of commitment of Forum participants was extremely high, with Working Group sessions lasting deep into the night. Virtually everyone who attended the Forum actively participated in the Working Groups. The tone of the discussions was practical serious and relatively free of parochialism. The interaction between Government and the private sector was cordial and fruitful.

Each Forum participant was assigned to one of the following four Working Groups:

1. Investment Promotion
2. Export Growth
3. Financial Sector Development
4. Tax Policy and Administration

Experience has shown that it is difficult for any government to undertake productive enterprises successfully. The Forum resolved that, for sustainable development the private sector must be the engine of growth and job creation, while Government provides guidance, infrastructure and the necessary conducive environment to stimulate the investments needed and to facilitate the organizations within a specific time, to assist in managing the implementation of the policies.

PHASE TWO 1993 - Maintaining the Momentum

Implementation progress on the recommendations of the Forum are followed by the Monitoring Group of key individuals from the public and private sectors. Members of the Monitoring Group provide guidance, counsel, and pressure where needed, to keep the implementation of the Action Plans on course. The Monitoring Group reports to the President through the President's Economic Council (PEC).

The four Working Groups met several times over the course of the last two years to identify new areas that needed to be addressed, in order to attain the goals set at the National Forum. The Working Groups have made additional recommendations in particular in the financial and tax policy areas. Members of the Working Groups have shown a remarkable sense of continued commitment towards implementation of the recommendations in the Action Plans. While the level of cooperation between the Government and the private sector on some issues remains low, other issues have been eliminated and are under serious study. In short, the system is working.

PHASE THREE 1994 - A Self-Sustaining Process for Dialogue and Implementation

As part of the continued technical support for the National Forum support, USAID engaged the IPC (Implementing Policy Change) Project to provide a technical study for the National Forum Working Group on Constraints and Progress in Tax Policy and Administration. This study was concluded in April of 1994 following an analysis and workshop on tax and administration. This intervention served to broaden the process and as a consequence assisted in accommodating the budget of the GOU.

A formal meeting of the Monitoring Group was convened on August 22, 1994 at the Colline Hotel in Mukono to: discuss and summarize progress to date on Action Plans; prioritize recommendations of each of the Working Groups; devise a strategy for resolving these issues; and, prepare guidelines and planning for the next conference of the National Forum (proposed to be held on October 23, 1994).

Several issues from each of the four Working Groups were chosen as priorities for concentration of action. They are:

Working Group I: Investment Promotion

1. Improve physical infrastructure.
2. Improve management of infrastructure.
3. Improve transparency and governance.
4. Improve public sector wages.
5. Improve participation of stakeholders.

Working Group II: Export Promotion

1. Stabilize a realistic exchange rate.
2. Institutional development of export promotion.
3. Collection and dissemination of market information.
4. Infrastructure development.
5. Capacity building within the export sector.

Working Group III: Financial Sector

1. Improve domestic resource mobilization and savings.
2. Establish a realistic and stable exchange rate.
3. Establish a realistic and stable interest rate.
4. Encourage financial institutions to establish branches in rural areas.
5. Monitor implementation of the financial institutions statute of 1993.

Working Group IV: Tax Policy and Administration

1. Utilize local administration units (Regional Councils) for tax collection for a fee.
2. Review personal income threshold/rates.
3. Strengthen tax education.
4. Consolidate and publish tax laws.
5. Simplify and reduce the volume of documentation required.

In the coming weeks in preparation for the next National Forum conference the Working Groups will consolidate, further refine and identify specific actions necessary to implement their recommendations.

RESULTS TO DATE - What has the National Forum Process Accomplished?

1. **A Low Cost - High Yield Project.** The establishment of the National Forum under the IPC Project has been a low-cost high-leverage intervention on USAID's part. It has accomplished a lot with the commitment of few resources. The participation by key officials of the Government of Uganda and its institutions and key members of the private sector has been voluntary.
2. **Relationships Between the Public and Private Sectors have been established and maintained.** At the onset of "the process" there was little dialogue between government and the private sector. Relationships have been established between instrumental "players" in the public and private sectors and regular meetings, and "open" discussion has ensued. New channels of communications have been opened. Not only has the process matured but the substance of the discussion has matured. The open and continued participation of the National Forum is contributing to good governance.
3. **The Process of Policy Dialogue and Implementation is Self-Sustaining.** The National Forum started as an event, a conference, and has now developed into a process for airing policy issues and developing solutions. At the onset recruitment for members of the Working Groups and facilitation of meetings was conducted by USAID technical assistant consultants. Meetings are now scheduled and conducted by the Working Groups themselves and the role of local consultants has increased. UMA/CIS and MSE have taken a larger role as the MSI's role has moved from design and facilitation to advisory, monitoring and reporting progress.

RECOMMENDATION

Now the "process" of policy dialogue and implementation has moved to a point where it functions on its own, we recommend that USAID continue with Phase Four - Institutionalization. Phase Four would provide for technical assistance for analysis of the types and nature of current and anticipated issues for which participation and action are necessary. Upon completion of the needs assessment and any technical studies that might be necessary, the IPC Team would design a comprehensive transparent system and the necessary enabling legislation for participation in government rule making. Tools in the U.S. like: the Federal Register for announcements of impending rule making and hearings on same; the Commerce Business Daily for government procurement opportunities and contract awards; the Freedom of Information Act; and, other measures might be prepared for consideration by the Government of Uganda to ensure continued widespread participation, improved transparency and accountability.

The summary reports of the four Working Groups are attached.

USAID BRIEFING
THE NATIONAL FORUM

o THE UGANDA EXPERIMENT 1989

o PHASE ONE 1992 - PARTICIPATION IN GOVERNANCE

An introduction to the strategic management process, issue identification, formulation of solutions, action planning and policy implementation. The public and private sectors working together.

o PHASE TWO 1993 - MAINTAINING THE MOMENTUM

Implementation actions and steps were taken, dialogue continues and expanded, technical studies undertaken and, monitoring and reporting begun.

o PHASE THREE 1994 - A SELF-SUSTAINING PROCESS FOR POLICY DIALOGUE AND IMPLEMENTATION

An assumption of responsibility, direction, continuity and momentum assumed by Ugandans (Working Groups, UMACIS and MSE).

o PHASE FOUR 1995 - INSTITUTIONALIZATION

Analyze needs, design a system to institutionalize participation, etc.

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| | <p>UEB</p> | <p>1.2 Billing/Pricing: UEB's billing system is not transparent. According to the TAAG Mission report, UEB is being paid for 56% of total consumption. In addition, only 70% of all users are billed and payment is received from an even smaller fraction. UEB needs to broaden its collection base. Why is not UEB utilizing meters for collection?</p> <p>The UEB Act of 1964 needs to be updated. The current laws do not provide means to ensure compliance of payment or provide penalties for lack of payment. The current penalty for defaulting does not exceed USH 5,000. Updating and enforcing the laws would deter consumers from defaulting.</p> | <p>1.2 Billing/Pricing: UEB's claims that at present it is very difficult to collect from its residential customers who are the bulk of the users. UEB stated that it was improving collection systems. However, even if systems were improved, it claimed that it would be running at a loss, due to the large capital costs. UEB states that plan for any additional rate increases until 1995, unless there is a drastic change in the value of the USH. From 1995, onwards, rate will increase at 5% until 1997. This is keeping prices in line with inflation.</p> | <p>1.2 Billing/Pricing:</p> <p><i>Management Contract:</i> UEB should install better collection systems. Perhaps a management contract is required or there should be a tender offered for collection of bills.</p> <p><i>Metering:</i> should occur of all domestic and industrial users.</p> <p><i>Prepayment:</i> Consumers could prepay for electricity using power coins for example. The power would automatically disconnect when the money in the meter is used up. However, this method would require a very high initial capital investment. The Group recommended that the UEB undertake a study on this method to improve billing. A pilot project of 100-200 units could be undertaken to identify costs and benefits.</p> | <p>INFORMED THE MINISTRY AND UEB.</p> <p>INFORMED THE MINISTRY OF ENERGY AND UEB.</p> <p>INFORMED THE MINISTRY OF ENERGY AND THE UEB. RECEIVED RESPONSE FROM UEB WHICH STATED THAT UEB IS AWARE OF THESE SYSTEMS AND THAT FUNDS FOR A PILOT STUDY ARE BEING DISCUSSED WITH FUNDING AGENCIES.</p> <p>THE FORUM WILL BE UPDATED ON THESE ISSUES IN OCTOBER 1994.</p> |
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| | | | <p>UEB's management is not satisfied with 56% collection. It is currently reviewing procedures used to collect revenue. It has:</p> <ul style="list-style-type: none"> •Increased manpower for collection •Improved logistic. Need to reach customers. One method is by purchase motor cycles to reach debtors. •Employed lawyers to TAKE non-payment cases to court and working with debt collectors. •Changed agreements to provide electricity whereby the landlord will have to guarantee payment will be requested using an estimated after visiting the property. •Investigated various new technologies to enable improved billing. It has asked the Electricity Supply Board of Ireland to carry out a diagnostic study on the institutional management of power distribution in Kampala. | <p><i>Establishing a Clearing House:</i> Collecting monies from government ministries has been very difficult for UEB. Therefore, the Group recommended the establishment of a clearing house to facilitate debt collection from government parastatals. The clearing house would appoint an independent Chairman and would help parastatals to clear each others bills on time.</p> <p><i>Public Utilities Commission:</i> should be set up in order to review any rate increases or projects. In addition, the selection of directors to head this commission should be transparent. All potential directors should be reviewed thoroughly.</p> | <p>IN PROGRESS; PAPER WRITTEN BY UEB, SUBMITTED TO MFEP</p> <p>PENDING</p> |
| | UEB | 1.3 <u>Installation Charges:</u> are too high. | <p>1.3 <u>Installation Charges:</u> UEB states that it has high capital costs derived from the rehabilitation of Owen Falls Dam and therefore, it is passing on this cost to the users.</p> | <p>1.3 <u>Installation Charges:</u> It was recommended that UEB's project costs should be recovered through proper accurate billing, not by charging exorbitant installation charges.</p> <p>It was also recommended that installation charges paid by new UEB customers be credited against their future electricity bills over a given period of time (perhaps 5 years), at a fixed minimum rate of recovery. Where multiple users are utilizing the installed facilities, the recovery rate shall be applied to each user.</p> | <p>PENDING</p> <p>PENDING</p> |

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| | UPTC | 2.2 Billing: There is a serious problem in billing | 2.2 Billing: The UPTC says that the problem is two fold, technical and efficiency. | 2.2 Billing: | |
| | | | <i>Technical:</i> networks used to be on the streets within access to anyone for tampering and unauthorized use. | <i>Technical:</i> currently all wires are being placed underground to prevent unauthorized persons from tampering with the wires. In addition, the UPTC has the ability of installing a lock out system on individual phones for STD and ICD. | IN PROGRESS |
| | | Non-payment by government ministries has seriously hindered improvement in services by UPTC. | <i>Efficiency:</i> Unlike UEB, UPTC has everyone metered. Therefore, there should be no difficulty in proper billing. | <i>Efficiency:</i> With improvement in the technical side, billing should also improve. <i>Establishing a Clearing House:</i> Collecting monies from government ministries has been very difficult for UPTC. Therefore, the Group recommended the establishment of a clearing house to facilitate debt collection from government parastatals. The clearing house would appoint an independent Chairman and would help parastatals to clear each others bills on time. | IN PROGRESS IN PROGRESS; PAPER WRITTEN BY UEB, SUBMITTED TO MFEP |

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| | UPTC | 2.3 <u>Pricing</u> : UPTC charges for international calls are too exorbitant | 2.3 <u>Pricing</u> : UPTC is reviewing its international charges. They used to be very low and under cost so now rates have increased to pay back the deficiency which has built up in the last few years. UPTC feels that the high rates are good given the lack of adequate network, since it keeps people on the line for less time. | 2.3 <u>Pricing</u> : <i>Public Utilities Commission</i> : should monitor rate increases. Again, the selection of this commission should be transparent. <i>Lowered Rates</i> : After a public outcry over high telephone bills, rates for international calls were reduced by 47%. However, local rates more than doubled. In addition, telephone connection charges more than doubled to reflect the cost of equipment used in installation. | PENDING COMPLETED |
| | UPTC | 2.4. <u>Operation and Maintenance</u> : UPTC lacks proper operation and maintenance. | 2.4 <u>Operation and Maintenance</u> : The telecommunications industry is fast changing. The problems UPTC has arise from a lack of spares because all parts are imported. Additionally, there is the problem of old wiring. | 2.4 <u>Operation and Maintenance</u> : | IN PROGRESS |
| | UPTC | 2.5 <u>Response Time</u> : UPTC's response time is not as good as UEB's | 2.5 <u>Response Time</u> : UPTC has prioritized in the following manner in order to address this issue: Priority 1: Government Services, Hospitals, Factories and Diplomats Priority 2: Commercial Priority 3: Business Priority 4: Residential services | 2.5 <u>Response Time</u> : | IN PROGRESS; UIA HAS BEEN MONITORING RESPONSE TIME. |
| | UPTC | 2.6 <u>Administrative Policies</u> : Regarding uniforming of employees, stealing of wires etc. | 2.6 <u>Administrative Policies</u> : Now, UPTC employees have uniforms and can be identified. In addition, the UPTC has reduced the number of areas where an exchange can be worked on. This lessens the chances for wiring to be stolen. | 2.6 <u>Administrative Policies</u> : The public should be made aware of the new policies of the UPTC. In addition, UPTC is implementing tougher investigative channels which will be able to identify unauthorized users. | IN PROGRESS |

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| | UPTC | <p><u>2.7 Liberalizing Postal Services:</u> Currently UPTC hold a monopoly on postal services. The few courier services such as DHL, Speed Delivery, and TNT currently pay a fee to the UPTC.</p> | | <p><u>2.7 Liberalizing Postal Services:</u></p> <p><i>Deregulation:</i> Mail services should be deregulated to allow other players into the market. The fee currently charged to other couriers should be paid by UPTC as well to an independent regulatory body, which would ensure that consumers receive quality service. Competition will improve efficiency.</p> <p>A study on the deregulation of UPTC has been conducted by the IFC. The report recommends that Postal Service be separated from telecommunications. Currently, the Postal Service is far more liberalized. Approximately 11 companies, both domestic and international, exist which provide courier services.</p> | <p>IN PROGRESS</p> <p>COMPLETED</p> |
| | UPTC | <p><u>2.8 Selection of Directors:</u> There is currently no transparency in selection.</p> | | <p><u>2.8 Selection of Directors:</u> There should be an objective and transparent system of recruitment of directors for the UPTC board.</p> | <p>PENDING</p> |
| DIVESTITURE | PERD | <p><u>3.1 Transparency:</u> PERD needs to be more transparent regarding bidding procedures.</p> <p><i>Lake Victoria Hotel:</i> Bidding for Lake Victoria Hotel was conducted in a very unfair manner. After the bids had closed, the Ministry of Finance continued to accept bids and awarded the Hotel to a late bidder.</p> | <p><u>3.1 Transparency:</u> PERD states that DRIC is the body with the power to change PERD.</p> | <p><u>3.1 Transparency:</u> Amendments in PERD's statute are being made to give it more powers.</p> <p><i>Lake Victoria Hotel:</i> The Working Group sent a letter to the MFEP copied to the Coordinator, PERD, expressing the Group's concern regarding the way rules of PERD were ignored in this tender. As a result, the original bidder was re-awarded the hotel.</p> | <p>IN PROGRESS</p> <p>COMPLETED</p> |

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| POLICE | POLICE | <p><u>4.1 Accountability/Control:</u> Who should control the police? How much freedom should they have?</p> | <p><u>4.1 Accountability/Control:</u> The police need some autonomy from traditional controls. The Ministry of Internal Affairs does not agree. The role of police is to investigate crime and pass the information onto the DPP which decides whether or not to press charges.</p> | <p><u>4.1 Accountability/Control:</u></p> | PENDING |
| | POLICE | <p><u>4.2 Lack of Resources:</u> There are not enough police officers on the force, they lack transport/logistics and the current police budget is too small.</p> | <p><u>4.2 Lack of Resources:</u> The target policy force would be one policeman for every 500 people but this is not the case currently. There are now 560 units and the target is 860 units</p> | <p><u>4.2 Resources:</u></p> | UNFORTUNATELY, THE POLICE FORCE WAS CUT BY 300 OFFICERS. |

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| | | | <p><i>Poor Remuneration and Logistics:</i> are the basic causes of Police apathy/ Until one month ago, all districts (39) had only one vehicle, now they each have two. The budget provides 100,000,000 USH per month to service and fuel 62 vehicles. Fuel alone runs 120,000,000 USH. per month. There is currently a dilemma whether to spend money on fuel or maintenance.</p> <p>The total monthly budget of the police is 100,000,000 to be spread over 16,000 people. That is approximately 6,250 USH. per person. The total police budget on paper is 444 million/month excluding wages for a total of 6 billion shillings. The actual amount which can be utilized is 3 billion shillings since half is suspended due to lack of funding. This amount is divided between recurrent and capital (barracks, communication) costs. This makes planning the cash budget a nightmare. In contrast the ISO budget is 7 bn USH. and there are only___ of them. ISO members are not legally empowered or trained to handled civil conditions.</p> | | PENDING |
| | | | <p>The Deputy Inspector General of Police spends 70% of his time looking for his department instead of focusing on police work. The police desperately need communications systems, rations, and fuel.</p> | | |
| | POLICE | 4.3 <u>Training:</u> The police force lacks adequate training. | 4.3 <u>Training:</u> The current police force is not properly trained. It is hoped that by the end of 1994, 30,000 men will be trained. It is very difficult to train with such a small budget. | | PENDING |

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| | | | The main thrust now is to retain the existing force. Prosecution is not the job of the police but of the DPP. However, due to the large caseload and overwhelmed DPP, the police are now handling this aspect as well. | 4.3 <u>Training:</u> | PENDING |
| | POLICE | 4.4 <u>Corruption:</u> The police force are very corrupt. Many police officers have become thieves. | 4.4 <u>Corruption:</u> The lack of proper wages causes corruption. See above for police budget. Those paid starvation wages should not be chided for corruption. | 4.4 <u>Corruption:</u> | PENDING |
| | | | In addition, during the recent demobilization, many of the officers were not given their customary severance package. Therefore, of every 5 robbers arrested, 3 are ex-policemen. Also, there are so many guns around. | | PENDING |
| | | | An Anti-Robbery Unit has been created which has proven to be very effective with catching thieves. Now it just needs transport, training, etc. | | PENDING |
| | POLICE | 4.5 <u>Informers and other information sources:</u> the use of informers because many make up information in exchange for money. In addition the police force lack a civil infrastructure (telephones) to alert them of possible crimes as soon as possible | 4.5 <u>Informers and other information sources:</u> The police have introduced a Community Police Program wherein selected policemen are trained especially to go into the community and, working with the RCs, assist the people. | 4.5 <u>Informers and other information sources:</u> There is possibility of using private guards to assist the police. However, institutions have not been set up yet. These guards need to be accommodated into the <u>Police Act</u> . | IN PROGRESS |

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| | POLICE | 4.6 <u>Response Time</u> : Response time of police is very slow. | 4.6 <u>Response Time</u> : The manual system currently utilized makes it very difficult for the police to respond quickly and effectively. By 1995 the Records and Identification Bureau should be computerized which would assist in improved response time. | <u>Response Time</u> : | IN PROGRESS |
| | | | In addition, the improvement of civil infrastructure, especially phones, would assist the police greatly, especially upcountry. | | IN PROGRESS |
| JUSTICE | MINISTRY OF JUSTICE | 5.1 <u>Need for Structural and Institutional Reform</u> : Currently, the administrative and political heads at the Ministry of Justice are also the professional heads. For example, the current Minister of Justice is presently the Attorney General, Third Deputy Prime Minister, NRC Member, and Constituent Assembly Delegate. How can he be expected to attend to and superintend the cases through the courts? Not only is he short on time, but these roles are sometimes incompatible. | 5.1 <u>Need for Structural and Institutional Reform</u> : | 5.1 <u>Need for Structural and Institutional Reform</u> : The position of Attorney General must be separated from the political head. It is not sufficient to just increase salaries. The system needs to be reformed. | PENDING |
| | | The current Solicitor General is presently the Permanent Secretary at the Ministry of Justice and the Accounting Officer. He is currently out of the country as a Consultant for the UN. How can he ensure that the Civil Laws and Cases are handled expeditiously? | | The position of Solicitor General must be separated from the Administrative head of MoJ. | PENDING |

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| | MINISTRY OF JUSTICE | 5.2 <u>Slow Operations</u> : Cases languish in courts for years before they are even heard by a magistrate. | 5.2 <u>Slow Operations</u> : There is a huge backlog because of lack of resources, few attorneys, etc. There is only one Chief Magistrate in Masindi who handles 3 districts. | 5.2 <u>Slow Operations</u> : | PENDING . |
| | MINISTRY OF JUSTICE | 5.3 <u>Corruption</u> : There is widespread corruption in the courts. | 5.3 <u>Corruption</u> : Low salaries of attorneys is the main problem. Salaries of attorneys, magistrates, and judges will be raised for a period of 2 years in order to stem corruption. This program is donor funded. | 5.3 <u>Corruption</u> : | IN PROGRESS |
| | MINISTRY OF JUSTICE | 5.4 <u>Lack of Revenues/Fines too low</u> : | 5.4 <u>Lack of Revenues/Fines too low</u> : There is an ongoing review of fines and there should be reform. | 5.4 <u>Lack of Revenues/Fines too low</u> : | IN PROGRESS |
| | MINISTRY OF JUSTICE | 5.5 <u>Land Ownership by Non-Ugandans</u> : This law has cost Uganda over \$50,000,000 in lost investment | 5.5 <u>Land Ownership by Non-Ugandans</u> : Currently non-Ugandans can only lease land for a period of 49 years. Even so the investor needs to receive approval from the Cabinet and the Ministry of Finance in order to lease. A Law Reform Committee has been set up to review and reform such laws. | 5.5 <u>Land Ownership by Non-Ugandans</u> : | IN PROGRESS |

Strategic Management for Export Promotion in Uganda : A Preliminary Assessment of the Problem by the National Forum Working Group 2 on Export Growth

A summary of the Strategic Management Process for Export Promotion in Uganda

Uganda's foreign exchange earnings are minute, compared to her import requirements, and the need to service the external debt. The country needs to immediately put in place a coordinated National Export Promotion Strategy to address this problem.

Various measures have been put in place by Government : liberalisation of the exchange rate, simplification of export procedures, promotion of tourism. Another set of measures are due to be implemented: putting in place a cold storage facility at Entebbe Airport; improving the information system for exporters through assistance given to the Uganda Export Promotion Council (UEPC); assisting large-scale exporters through the Export Policy Analysis and Development Unit (EPADU).

However, all the measures taken so far address specific problems, but do not add up to a coordinated National Export Promotion Strategy that sets priorities, and brings together policy makers and stakeholders in the private sector (the exporters themselves) to take co-ordinated and re-enforcing policies and actions. An institutional framework, such as an Export Service Organisation is needed as a cementing, focusing or co-ordinating mechanism.

Secondly, current policies, although regarded as appropriate need to be re-visited because their unintended effects are indirectly taxing the export sector (for example, exchange rate appreciation).

It is recommended that Working Group 2 holds quarterly workshops to bring together policy makers and stake-holders to iron out implementation problems. These meetings would be the stepping stones to provide the blocks to build consensus for the need to establish an institutional co-ordinating mechanism. The other monthly meetings of Working Group 2 should be attended by a member of the Monitoring Team of the National Forum, and should concentrate on the follow-up actions (to the quarterly workshops) and gathering pertinent information to make the workshop effective.

1.0 Introduction: Uganda's External Sector Crisis

Tables 1 and 2 show that Uganda is not earning enough foreign exchange to pay for her import requirements and meet her external debt obligations.

The Trade balance in Table 1 is sharply negative. Had there not been the generous inflow of unrequited transfers, the current account deficit would have been larger than two digits as well.

Apart from the trade sector, the net services balance is also negative. Uganda has only Tourism to sell at the moment, and the industry is just beginning to pick up.

The fact that Uganda relies on loans is evident in the huge external debt in Table 2 (reflecting the cumulative official flows on the capital account in Table 1). The most binding constraint in Table 2 is

that practically 70% of Uganda's external debt is owed to Multinational Agencies and cannot be re-scheduled!

The foreign exchange earnings in Table 3 cannot service the debt, let alone leave a balance to import essential items both for consumption and investment to increase productive capacity. In brief this is Uganda's external sector crisis. Foreign exchange earnings are meagre and have dwindled between 1989 - 1992, yet external debt is growing. Loans (and even grants) cannot be obtained without conditionality, which becomes more stringent as debt service obligations grow and Uganda's credibility to pay comes increasingly under question. Part of Uganda's external sector crisis is caused by adverse shocks outside her control, such as unfavourable international prices of her exports, especially coffee whose price has fallen rastically until recently. Secondly, practically all exports come from rain-fed agricultural produce where yields vary with measures and where produce is exported with minimal processing to add value.

Well-planned action must be put in place and strategically managed to revolutionise the export sector if it is to become resilient to shocks. Only the rudiments of this action, in our assessment, are beginning to be put in place. It is the process of how these rudiments are being assembled which the Export Growth Working Group 2 of the National Forum on Strategic Management for Private Investment and Export Growth was mandated to address in October 1992.

1.1 Action Plan Outline and Rationale

The Working Group, and indeed the National Forum, took the policies outlined in the Way Forward I and Way Forward II (1991) Policy Papers as the starting point. The Action Plan for Group 2 is attached in Table 5.

The key objective of the Action Plan of Group 2 was to start and nurture a process that brings together the important actors to formulate and implement a Coordinated National Export Promotion Strategy. The methods were: process; convene or attend workshops that bring actors together to iron out emerging and outstanding issues; follow and encourage the speeding up of necessary legislation.

1.2 Regular Meetings Held by Working Group 2

The Working Group held eight regular meetings dated:

- (i) 7th October 1993,
- (ii) 18th November 1993,
- (iii) 26th November 1993,
- (iv) 17th December 1993
- (v) 28th January 1994,
- (vi) 23rd February 1994
- (vii) 11th July 1994
- (viii) 18th August 1994

The first meetings were started almost a year later after the National Forum. The time was lost in an attempt to put in place the new process itself and to secure funding.

As soon as the process was started an attempt was made to make up for the lost time. Frequent meetings were held in late 1993 and early 1994. However, the meetings were scaled down after February 1994 because Working Group 2 was seeking and checking on information that proved difficult to get, as to be noted below.

1.3 Workshops Convened/Attended by Group 2:

Four relevant workshops were held:

- (i) "The Export Finance Workshop" convened by the Bank of Uganda, UNDP/ITC/GATT on 28th February 1994, to consider the findings on a proposed Export Guarantee Scheme;
- (ii) "The Implementation of Export Strategies for Economic Growth and Development: A comparison of Uganda and Asian Experiences," convened on 10th March 1994 by Makerere University, the Department of Economics in conjunction with the Uganda Manufacturers Association and facilitated by the International Centre for Economic Growth (ICEG) and USAID;
- (iii) "Design of an Export Promotion Services Organization for Uganda." held in April 1994; and
- (iv) "Promotion of Exports through Strategic Management of Policy" held 13th to 15th July 1994, organised in conjunction with USAID's Implementing Policy Change (IPC) Project.

1.4 Legislation Monitored:

Bill No. 21 "Agricultural Seeds and Plant Bill" whose objectives are: to provide for the promotion, regulation and control of plant breeding and variety release Multiplication, conditioning, marketing, importing and quality assurance of seeds and other planting, conditioning, marketing materials... "

2.0 The results to date, per item of the Action Plan:

Despite the very busy schedule above, actual achievements have yet to address the major objective of nurturing a co-ordinated National Export Promotion Strategy. The problems encountered on this topic are outlined in Sections 2.1 - 2.1.3.

2.1.0 Institutional Framework for Promoting a National Export Promotion Strategy:

The most binding constraint to export promotion is the lack of a custodian to bring together the stake holders to formulate an agreed upon strategy which they can then implement.

2.1.1. Existing Export Promotion Institutions: the EPC and EPADU:

The Export Promotion Council, (UEPC), under the Ministry of Trade and Industry is crippled with inadequate finance, and therefore unable to attract and retain staff. It also operates under Parastatal Legislation (since 1983) that regiments its agenda, with hardly any autonomy.

The newly formed Export Promotion Analysis and Development Unit (EPADU 1991) is funded by USAID and placed under the Ministry of Finance and Economic Planning to avoid the disadvantages faced by the UEPC: lack of funds, and regimentation. The EPADU has initiated a series of baseline

studies on potential new exports to diversity the export base; assisted some exporters with feasibility studies and the mobilization of finance by linking them with the African Project Development Facility.

However, the beneficiaries are limited to the very few well-endowed entrants with already substantial resources; so far in the period 1991 - 1994 only 6 exporters have been assisted! This orientation of EPADU's assistance towards large-scale operators sidetracks a key element: i.e. to force a linkage between exporters and small-scale operators who actually do produce the bulk of Uganda's exports. Besides, EPADU is a project with a limited life span and not an institution which can spearhead a sustainable Export Promotion Strategy to establish and broaden the export base. It is not even likely that its base-line surveys will produce exports during the span of the current project's life-time.

2.1.2 The Pro-Active Broad Export Promotion and Development Project

The current government policy regarding exports is to create an enabling macro-economic environment: control inflation, support a liberal exchange rate, interest rate, and marketing regimes; simplify export procedures; and build the necessary infrastructure. After pursuing this policy vigorously, especially since 1990, government is realising that the supply response in the form of increased export volume and earnings falls far too short of that required to address the foreign sector crisis.

The government then decided to introduce a pro-active broad export diversification strategy to include the following elements:

- (a) Investment and working capital Finance Related Programmes.
- (b) Enterprise Level Support, by providing a Trade and Marketing Information centre.
- (c) Institutional Support and Technical Assistance to export institutions like the National Bureau of Standards and Private Sector Trade Associations.

Since government lacked the funds to implement the above broad strategy, it dissipated its efforts into seeking donor support at the expense of concentrating on thinking through a sustainable institutional framework to spearhead export promotion.

A merger of EPADU and UEPC was proposed to forge a new institution to be placed under the Ministry of Trade and Industry. But the proposal neither specified how the shortcomings of EPADU and UEPC were to be overcome, nor was there a machinery to systematically incorporate the views of the private sector exporters, the actual stake holders.

By the end of November 1993, Working Group No.2 had to write to the Ministry of Trade and Industry requesting for a progress report on streamlining the Institutional Framework for Export Promotion and the Formulation of the National Export Strategy.

Hopefully, the government will soon realise that the Export Promotion Development Project is addressing specific issues, at best; the project framework itself cannot produce a National Export Promotion strategy that is sustainable; to wait for a strategy from this source is leading to a very costly delay in policy implementation.

2.1.3 Designing of an Export Promotion Services Organization for Uganda: Workshop:

The workshop was attended by members of Working Group No.2. The purpose was to consider the consultant's Report entitled Design of An Export Promotion Services Organization for Uganda. The Report weighed four alternatives: a purely private sector led institution; a purely public sector led institution; a predominantly private sector institution with government participation, and a predominantly public sector led institution with private sector participation.

The considered view of Working Group No.2 is that the first two alternatives would be ruled out because a National Export Promotion Strategy that is sustainable must be supported by both the private-sector implementors and the public sector policy makers.

The fourth alternative reverses government policy. This alternative would recreate a parastatal-like institution in which the private sector only has a minor advisory role, in contradiction to the stated policy which is premised on the private sector as the major actor in promoting exports.

In the view of Working Group No.2, the only alternative that is consistent with government policy is a National Export Promotion Services Organization that is led by the private sector, with considerable autonomy, but with government participation. The consultant's proposal is detailed on how the different phases of creating this organization should be implemented. The Report has formed the basis of a Cabinet Paper due to be considered. The question Working Group No.2 has to address is how to influence the actors and stakeholders to accept an autonomous private-sector led organization, with government participation and to bring it about in reality. This crucial issue must be addressed in the next Forum, if the process is to go forward.

Once the institution is in place the rest of the objectives under No. 1 on: prioritizing products and subsectors for intensive support; formulating start-up incentives; generating consensus on an export action plan will become much easier to achieve.

2.2.0 Institution Issues:

Following the outline in Table 5, the second item: Institutional Issues, was addressed by Working Group 2, although the time-table was not strictly adhered to. The item-by item progress report is detailed-immediately.

2.2.1 EPADU and UEPC to encourage the Private Sector to Effectively Organize to address Export Issues:

The Working Group No. 2 in its very first meeting dated 17th October 1993 Minute 5/1/93 requested progress on this item.

The reply from the UEPC was that Exporters Associations are organized along individual commodity lines

Uganda Horticulture Association
 Uganda Floriculture Association
 Uganda Grain Exporters Association
 Uganda National Farmers' Association

Each Association sees its urgent problems as unique to the commodity or commodity group exported and sees no need to form an Umbrella Association to address general problems.

The Working Group No.2 meeting held the view that exporters need to be explained what the common problems are as well as the need to forge a common front to tackle them.

At the meeting of 18th November 1993, Minute 1/2/93 the UEPC reported that a small technical committee has been set up to gather views from the exporters and assess their interest in and expectations from an Umbrella Association. According to the UEPC, no date could be set for the committee to complete its work because a lot of persuasion had to be done.

In the meeting of 26th November 1993 the Working Group heard the preliminary view from the UEPC and agreed that a questionnaire should be used to solicit the views of the Private Sector Exporters Associations regarding the proposed Umbrella Organization. An individual or EPADU was to be contracted to conduct the survey.

It was also suggested that a meeting of all officials of the Private Sector Exporters Associations be convened to persuade them to act on this issue.

By the time of the meeting of Working Group No. 2 of the 28th January 1994, the members present noted that forming a questionnaire was taking too long. The meeting of officials had not been called either. There was no further progress on this issue. The general feeling to date in Group No. 2 is that 2.2.1, 2.2.2 and 2.2.3 issues are all tied together. Private Sector Exporters are not likely to be persuaded to form an umbrella Organization which has no customer to work with i.e the Umbrella Organization lacks the National Export Services Organization to encourage and nurture it, and to provide a focal point to address export issues.

2.2.2 Organize a Working Party on Institutional Framework for Export Promotion to Recommend to GOU and Provide Appropriate Budgetary Resources: Actors UEPC, MOTI, MFEP, EPADU, UIA and Private Sector Exporters:

Efforts to follow the activities of the Working Party were dissipated into the institutional problems outlined in 2.1.

A Task Force was set up to speed up the negotiations process between the World Bank and Government on the Export Promotion and Development Project, which was taking too long. Not only did the Task Force remain dormant, since there was not much they could do beyond the project identification stage, to speed up World Bank procedures, but in addition, the existence of this Task Force was used to block the formation of the working party, on the argument that the Working Party

would draw membership from the same people as the Task Force, and would address and get stuck with similar issues.

The Budgetary resources were provided from the Export Promotion Fund under the PERD but were not yet disbursed: they are awaiting for the streamlining of the institutional framework for Export Promotion in order to identify which institutional structure and activities are to be funded.

As the World Bank project gets stalled or proceeds at too slow a pace, it will become necessary for Working Group No. 2 to revisit both positions: the Working Party versus the Task Force, and the postponed spending of the Export Promotion Fund. Inaction on both these positions for another 2 to 3 years (which is the predicted time frame for the World Bank Project to start operating) is proving too costly to the export sector.

2.3 Export Information: UEPC, Agricultural Secretariat BOU, UCDA and the Media:

The UEPC contended that there was no need to create a new Information Centre since the organization was already collecting and disseminating information.

The UEPC noted the efforts by the UNDP/ITC to computerize and modernize the information system already under way with some equipment delivered, and awaiting the recruitment of national experts on Computerized Trade Information Systems.

Working Group No.2 noted the Export Bulletin issued by UEPC was improving but there was a need to evaluate whether it has been successful in stimulating investments into new areas of exports, which was the original objective to establish the Bulletin.

The UEPC noted that because it does not receive feedback, the organization finds it very difficult to decide on how to improve the dissemination of information. Apart from the Bulletin, the UEPC was also running a Radio Programme. In addition, the UEPC has a TINET computerized network on PTA countries, although data on some countries need updating.

The Working Group No. 2 in at least three meetings insisted that there was need to streamline information dissemination and focus it on the right clients from whom soliciting a feed-back would be easier.

More channels of dissemination were also recommended: the UMA monthly journal; other newspaper columns; and decentralized terminals to users at a fee on a cost-sharing basis.

The Baseline studies for new exports done by EPADU and the studies on competitiveness and comparative advantage of agricultural commodities done by AGSEC were not yet linked to the UEPC information system either. This requires follow-up action.

2.4.0 Export Oriented Agricultural Services: PEC, MOAAIF; and Private Sector Institutions.

The action plan under this heading covered two items: setting up a National Seed Committee to facilitate privatization; and upgrading Ag-research and Extension directly targeted to exports.

2.4.1 National Seed Bill

The National Forum wanted the government to encourage the private sector to participate in the multiplication and sale of seed. This would facilitate and speedup the distribution of proper seeds to grow export varieties, for example.

The UMA Consultancy and Information Services (UMACIS) was requested to study the Seed Bill in liaison with the Agricultural Secretariat (AGSEC) of the Bank of Uganda and report back to Working Group No.2.

The study and report back are awaited, before the next National Forum in late 1994.

2.4.2 Upgrade Agricultural Research and Extension Directly Targeted to Exports.

A study made by UMACIS on request by Working Group No.2 revealed that extension services have resumed since 1991 but so far only 12 districts are fully covered by the "Training and Visit" (or TV) extension system.

The TV system is effective but expensive. It is general and not targeted to export commodities. This issue should be taken up at the next Forum. The case of vanilla where government and the private sector co-operate in the provision of extension to farmers provides a good example of the potential of what can be done.

The extension under EPADU for vanilla cannot be multiplied for other new crops like silk, simsim etc however, because the project's scope is limited. There is a need, therefore, to get the private sector and government to forge a similar approach to extension focused on a broader range of exports.

Agricultural Research

The National Agricultural Sector Research Strategy Plan, recommended by the Uganda Working Group 9 A of the Agricultural Policy Committee in 1991, and being implemented by the National Agricultural Research Organization (NARO), worked out its research priorities based on the criteria of.

"..... efficiency, equity, security, and environmental considerations."

Non-traditional exports were not part of these criteria. The rank of priority commodities for research are reproduced in Table 6. Although the effect of research on productivity might increase the "marketable surplus" which could be exported, there is no focus within the research agenda on high-value- low-weight commodities for export. Yet the bulk of commodities that can be developed within Uganda's current comparative advantage to diversify the export structure must come from the Agricultural Sector.

There is a serious need, therefore, to focus part of the resources for agricultural research on non-traditional exports. The fear that exporting would threaten food security is unwarranted. Food security is not assured by own-production for own-consumption alone. An increase in purchasing power from a vibrant export sector can be used as well to purchase food and vary the menu for better

health, provided income distribution and food marketing are improved. Encouraging exports from small-scale producers ensures that income distribution and improved marketing infrastructure are part of the co-ordinated National Export Promotion Strategy.

2.5.0 Export Market: EPADU, Customs, URA, Private Sector

There was substantial progress made on this topic with regard to simplifying export procedures and the construction of the Cold Storage Facility at Entebbe.

2.5.1 Set up a Committee to Simplify Export Procedures at Entebbe and all other Exit Points:

Government has put in place a Simple-Unified-Single Customs Document (ASYCUD). What is needed is training exporters on how to use the Document. Import procedures should be simplified as well in the general interest of facilitating trade.

The ASYCUD computerized system is also in place. What is needed is to train and reorient some customs officials who show resistance to adopt it.

The Anti-smuggling unit is doing a commendable job to collect revenue. But it needs to be sensitized about facilitating trade.

The URA should occasionally check on how well the procedures it put in place are working so that it can clear unexpected bottlenecks and improve performance.

2.5.2 Examine how to encourage Private Investment to develop Cold Storage Facilities at Entebbe.

The USAID gave the Civil Aviation Authority (CAA) a capitation grant, to oversee the construction of the Cold Storage facility with a capacity of 50 tonnes. Once completed, in late 1994 management of the facility will be tendered and users will contribute a fee.

It is hoped that the CAA will sell shares to the private sector; the proceeds of which can be used to maintain and enlarge the facility.

The African Development Bank (ADB) was to be contacted to readvertise the Spanish Chain Cold Storage Fund to prospective investors. The money is still idle because of the difficulty of the terms and conditionalities attached.

2.5.3 Tentative Conclusions on Export Marketing

While the substantial progress made by Government on this issue is most appreciated, the need for closer collaboration between government and the private sector to make this progress bear even greater fruit, is equally evident. For example, it is useful for the URA to check with traders how anti smuggling efforts can be conducted to raise revenue while at the same time facilitating legitimate trade, for legitimate traders also lose from rampant smuggling, and smuggling itself is often a symptom of a misaligned exchange rate or fiscal policies.

The simple-unified-single customs Document also provides an opportunity for government and the private sector to work together to train traders.

Likewise, the USAID and the Italian Financial Schemes for the Cold Storage at Entebbe could be utilized sooner and more effectively if Government works more closely with the private sector.

2.6 Export Finance: BOU and Commercial Banks

This was a subject of a half-day workshop which was organised by the Bank of Uganda, Export Finance Department, together with the UNDP/IIC/GATT. At the Workshop, the Export Finance Expert, Dr. Ivan Nyiri presented his findings on a Proposed Export Guarantee scheme for Uganda Exporters. The Workshop was attended by representatives from UMA and UEPC as well.

The main points raised during the presentation by the consultant, and subsequent discussions between him and the audience were as follows:

- (i) The existing Export Finance Scheme administered by the Export Finance Department of the Bank of Uganda is \$ 2m which was considered too small. The proposed figures were to expand the existing scheme to at least US\$ 10m or US\$ 11m.
- (ii) Despite the low cost of funds at 8.5% lending interest rate, the default rate was high. Administratively, the financing was approved when the exporter submitted an order proving that he/she had a market. However, there was no mechanism to check if the exporter could actually fill the order, and therefore be able to repay.
- (iii) Financing was for existing exporters, in a form similar to crop-finance. The scheme did not finance entrants into production. Access to coverage needed to be broadened, otherwise exporters remained too few, and likely to default due to lack of productive capacity to fill orders.

The procedure followed by the Development Finance Company (DFCU) in financing production for export should be studied to provide an example of possible workable guidelines.

- (iv) There were delays in disbursement. The average time to process an application was 45 days while most export orders expired within 30 days. The delay was due to an attempt to ration out "fake" exporters by administrative red-tape. This rationing implicitly taxed genuine exporters without necessarily reducing the default rate to zero. Administration had to be improved.
- (v) An Export Guarantee scheme was proposed where the BOU guarantees 70% while Commercial Banks guarantee 30%. If an exporter defaulted, his/her collateral would be sold and distribution in the ratio of 70:30. The exporter would be charged a 2% administrative fee.

The Export Guarantee scheme, by reducing the risk to Commercial Banks, would free idle resources sitting in the risk-free Treasury Bills, to circulate into productive export activities.

- (vi) Once the Export Guarantee Scheme was in place, an Export Insurance Scheme should also be started to ensure exporters against non-payment.
- (vii) The most efficient administrative procedure was for Commercial Banks to screen their exporter-customers and recommend them to the BOU whose role would be to simply release the money.
- (viii) Relevant training on quality control, gathering export market information, etc should accompany the two schemes: Export Guarantee and Export Insurance, so that exporters improve their ways of doing business as they secure financing in order to increase their ability to repay loans.
- (ix) A tax exemption on income earned by Commercial Banks and the BOU from the Export Guarantee Scheme should be put in place as well so that investment by Commercial Banks in export financing represents the same opportunity cost of the use of funds as the purchase of Treasury Bills.

2.7.0 Tourism : MTWA, UTAM UIA, PERD, UHC and MOEP

The issues raised under this heading were: to put in place a Sensitization/Training Programme for public officials handling Tourists, eg. immigrant officers, guards of unique tourist sites, etc; to put in place a Dynamic Public Awareness Programme on how to receive and treat Tourists and the contribution of Tourism to the national economy; to speed up the privatization of Uganda Hotels through Government Divestiture, or Leasing/Management contracts; and to speed up the implementation of the National Environment Action Plan which had elements related to the Tourist Industry. Progress to date by items, is as follows:

2.7.1. Sensitizing Public Officials Handling Tourists

Visa requirements were abolished for 33 countries in an effort to facilitate quick and convenient inflow of tourists to Uganda from high income countries whose visitors would boost tourist income and employment as well as Uganda's image abroad. Working Group No.2 very much supports this Presidential Move, and feels that public officials must have been sensitized to issue visas to the nationals of these 33 countries at the point of entry, at Entebbe, or other destinations in Northern Uganda for those visitors who had cleared with the CAA.

The targeted link between the Uganda and other tourist operators within the region, incorporated in the Tourist Development Masterplan, to exploit the multi-destination packages offered to tourists, is also supported by Working Group No.2.

However, a reading through all the policy measures, including the Integrated Tourism Master Plan for Uganda financed by the UNDP and executed by WTO on behalf of the MTWA, reveals that the net economic impact of tourism is expected to still remain small by the year 2002, earning an expected maximum income of only US\$ 73.3 m at constant 1992 prices. Efforts to promote tourism, therefore, need to be expanded further.

2.7.2 Persistent Shortcoming in the Promotion of Tourism:

- (i) The Programmes to create public awareness on how to receive Tourists, and improvement of the public's understanding of the importance of this industry to the national economy, need to be put in place, preferably by Government and Private Sector operators working together. An expanded inflow of tourists will not receive hospitality nor make an impact on the national economy if it is met by an unaware public.

Awareness programme could be combined with the development of small scale linkage activities that create employment such as: cultural entertainment; handicrafts; the development of historical sites, etc. It is these activities that would increase the impact of tourism on national economic development.

- (ii) The Environmental Action Plan implementation should also be speeded up since the development of rare natural resources is tied up with Tourism.

3.0 "THE IMPLEMENTATION OF EXPORT STRATEGIES FOR ECONOMIC GROWTH AND DEVELOPMENT: A COMPARISON OF UGANDA AND ASIAN EXPERIENCES"

While within the Working Group No. 2 agenda the policy environment was given, during the workshop of March 10, 1994 bearing the above Title, a number of questions regarding the direct impact of current policies on the export sector were raised, among which two were the most important, as summarised below:

3.1 The Cost of Infrastructure/Taxation:

Uganda's formal sector is small and provides only a narrow tax base; this leads to over-taxing the monetized activities, including export sector activities. Concurrently, because of low tax revenue, improvements in infrastructure are inadequate.

The exporter faces two sets of taxes: the high infrastructural costs and high formal taxes. In order to enable exporters to compete in the international markets the workshop recommended that tax waivers or/and lower infrastructural rates that are comparable to the competitors abroad should be given. The objective is not to give subsidies and encourage over-use of the infrastructure but to charge rates that enable the Uganda exporter to enter the international market on equal footing with foreign competitors, in an activity in which Uganda has comparative advantage, but where current costs are temporarily inflated because of efforts to rehabilitate the infrastructure and broaden the tax base.

3.2 Exchange Rate Appreciation

The current policy is to let the exchange rate be market-determined by the demand and supply of foreign exchange, without intervention from the B.O.U. But exporters recommended that the B.O.U. carefully examine the market for foreign exchange: their view was that appreciation of the shilling was due to imperfect competition in the thin inter-bank market. The B.O.U. should intervene to improve the degree of competition.

The appreciated shilling acts as a tax on exports; this tax is inconsistent with the long-term development objectives of the country.

4.0 RECOMMENDATION METHOD OF WORK FOR WORKING GROUP NO.2

Since there is no institutional mechanism to bring policy makers and exporters together, and since the issues facing the export sector need continuous dialogue, Working Group No. 2 should be enabled to convene quarterly workshops on the strategic management of the export sector.

The key ingredient of the workshops should be to bring policy makers & implementers from government together with the stake-holders in the private sector to iron out implementation issues, discuss and agree on strategy, and review unintended consequences of current policies.

The quarterly meetings, hopefully, will build consensus on a permanent institutional mechanism which should be put in place.

The other monthly meetings of Working Group No.2 should be for gathering information and taking follow-up actions to implement the recommendations of the quarterly workshops.

Table 2

THE STRUCTURE OF UGANDA, EXTERNAL DEBT STOCK AT JUNE 1992 (US\$)

| Creditor Category | Stock | Of which P & I arrears | % of Total |
|--------------------------------|----------|------------------------------|---------------|
| Multilateral | 1,843.38 | 20.59 | 69.7% |
| of which | | | |
| IBRD | 22.16 | 00.00 | 0.8% |
| IDA | 1,152.05 | 00.00 | 43.6% |
| ADB | 49.63 | 00.00 | 1.9% |
| ADF | 142.07 | 00.00 | 5.4% |
| IMF | 343.52 | 00.00 | 6.5% |
| Eligible Paris Club | 171.69 | 00.00 | 6.5% |
| Ineligible Paris Club | 110.38 | 5.10 | 4.2% |
| Non-OECD Bilateral | 380.9 | 136.43 | 14.4% |
| Commercial Bank | 14.13 | 13.87 | 0.5% |
| Commercial Non-bank | 60.86 | 34.29 | 2.3% |
| Non-Govt Guaranteed Parastatal | 61.8 | 42.90 | 2.3% |
| Total | 2,643.23 | 253.24 | 100 |

Source: Ministry of Finance and Economic Planning.

Table 3

FOREIGN EXCHANGE EARNINGS FROM TOTAL AND FROM MAJOR EXPORTS (US\$ '000)

| COMMODITY | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|------------------------|---------|---------|---------|---------|---------|---------|
| COFFEE | 307,535 | 265,279 | 262,811 | 140,384 | 117,641 | 98,087 |
| COTTON | 4,097 | 2,987 | 4,020 | 5,795 | 11,731 | 8,218 |
| TEA | 1,900 | 3,079 | 3,195 | 3,566 | 6,780 | 7,721 |
| TOBACCO | .. | 58 | 569 | 2,821 | 4,540 | 4,372 |
| BEANS | .. | 1 | 2,894 | 5,301 | 4,448 | 4,150 |
| MAIZE | .. | 324 | .. | 601 | 637 | 3,318 |
| SIMSIM | .. | 324 | 124 | 9,942 | 9,549 | 5,234 |
| FISH AND FISH PRODUCTS | .. | 474 | 1,822 | 1,220 | 3,542 | 1,386 |
| COCOA BEANS | .. | .. | .. | 519 | 374 | 504 |
| TOTAL EXPORTS | 310,820 | 327,610 | 279,850 | 117,685 | 184,763 | 177,658 |

Source: Republic of Uganda: Background to the Budget 1994-1995

Table 4

**INTERNATIONAL PRICES OF UGANDA'S MAJOR EXPORT CROPS
(UNIT VALUES IN US \$ PER KG)**

| Commodity | Coffee | Cotton | Tea | Tobacco |
|-----------|------------|------------|------------|------------|
| 1982 | 2.0 | 1.8 | 0.7 | .. |
| 1983 | 2.4 | 1.6 | 0.9 | 1.3 |
| 1984 | 2.7 | 1.8 | 1.3 | 2.1 |
| 1985 | 2.3 | 1.5 | 0.8 | 1.3 |
| 1986 | 2.8 | 1.0 | 1.1 | .. |
| 1987 | <u>2.1</u> | <u>1.5</u> | <u>0.9</u> | .. |
| 1988 | 1.8 | 1.4 | 1.0 | 1.5 |
| 1989 | <u>1.5</u> | <u>1.7</u> | <u>1.0</u> | <u>1.2</u> |
| 1990 | 1.5 | 1.5 | 0.8 | 1.2 |
| 1991 | 1.0 | 1.5 | 1.0 | 1.9 |
| 1992 | 0.9 | 1.0 | 1.0 | 2.6 |
| 1993 J.A. | <u>0.9</u> | <u>0.9</u> | <u>1.7</u> | <u>1.7</u> |

Source: Republic of Uganda. Background to the Budget 1993 - 1994. The 1980 - 1993 figures cover the period of serious efforts to unify the exchange rate, during which international prices especially for coffee fall sharply. Coffee alone accounts for over 70% of foreign exchange earnings. For 1993 the figure only cover the first four months January to April.

Table 1

BALANCE OF PAYMENTS: 1985 - 1993
(Million US\$ Dollars)

| Item | 1985 | 1986 | 1987 | 1988 | 1989 | 1990(7) | 1991 | 1992 | 1993 |
|------------------------------|-------|-------|-------|-------|-------|---------|-------|-------|-------|
| CURRENT ACCOUNT | 77.0 | 51.6 | 112.2 | 194.9 | 259.5 | 263.3 | 170.3 | 119.4 | 116.2 |
| Trade Balance | 114.9 | 31.4 | 264.7 | 391.9 | 462.3 | 439.8 | 301.1 | 362.1 | 443.0 |
| Export f.o.b. | 379.0 | 406.8 | 333.6 | 266.3 | 277.7 | 177.8 | 173.7 | 151.2 | 183.7 |
| Import c.i.f. | 264.1 | 438.2 | 598.3 | 658.2 | 740.0 | 617.6 | 474.8 | 513.3 | 626.7 |
| Services (net) | 98.9 | 126.6 | 113.5 | 125.4 | 108.8 | 116.5 | 197.6 | 189.6 | 167.3 |
| (interest charges)(1) | 21.0 | 48.4 | 18.3 | 25.2 | 24.4 | 47.8 | 73.8 | 74.9 | 63.9 |
| Unrequired Transfers | 61.0 | 209.6 | 266.0 | 322.4 | 311.6 | 293.0 | 328.4 | 432.3 | 494.2 |
| CAPITAL ACCOUNT | 27.4 | 3.9 | 121.2 | 45.7 | 317.5 | 177.5 | 34.9 | 70.8 | 84.2 |
| Medium and Long term (net) | 14.6 | 81.5 | 188.7 | 203.4 | 298.6 | 217.6 | 65.8 | 36.6 | 75.4 |
| Official Inflows | 85.6 | 128.5 | 275.6 | 269.2 | 461.1 | 314.0 | 183.3 | 202.9 | 253.7 |
| Official Outflows | 71.0 | 47.0 | 86.8 | 65.8 | 162.5 | 96.4 | 118.6 | 242.5 | 332.4 |
| Short term (net) | 42.0 | 85.4 | 67.5 | 157.7 | 18.9 | 40.1 | 30.8 | 34.1 | 8.8 |
| NET CHANGE IN ARREARS (3) | 17.3 | 44.3 | 19.1 | 142.1 | 41.5 | - | - | - | - |
| OVERALL BALANCE | 66.9 | 92.0 | 28.1 | 7.1 | 16.5 | 85.8 | 135.4 | 190.2 | 200.4 |
| FINANCING | 66.9 | 92.0 | 28.1 | 7.1 | 16.5 | 85.8 | 135.4 | 190.2 | 200.4 |
| Change in Gross Reserves (4) | 29.6 | 2.1 | 24.8 | 2.3 | 2.3 | 1.6 | 9.4 | 54.4 | 58.4 |
| IMF (net) (5) | 89.5 | 94.5 | 3.2 | 5.5 | 18.8 | 40.0 | 45.1 | 28.4 | 10.1 |
| Exceptional financing | - | - | - | - | - | 34.6 | 103.3 | 220.5 | 251.0 |
| Other (net) (6) | 7.0 | 0.1 | 0.1 | 0.7 | 0.1 | 0.4 | 3.6 | 4.3 | 17.9 |

NOTES:

(1) Some interest payments may be recorded under repayment of principal.

(4) (+) decrease in gross reserves; (-) increase.

(5) Includes errors and omissions.

(7) All rescheduling cancellation and net increase in arrears are taken as financing items in 1990.

"- " Means figures not available.

SOURCE: Bank Of Uganda.

**NATIONAL FORUM ON STRATEGIC MANAGEMENT
FOR INVESTMENT PROMOTION AND EXPORT GROWTH
Export Growth Working Group (II)**

Summary of Discussions held to-date

| ISSUES | ACTION | AGENCY |
|---|--|---|
| <p>1. EXPORT STRATEGY Export Incentives</p> <ul style="list-style-type: none"> • There are problems of bureaucratic delays in implementation, inconsistencies and occasional policy reversals. • There is generally low production and the market is segmented. | <p>Simplify and streamline existing incentives for efficiency. Improve incentives logistics for effectiveness and speed in implementation. Need for Government commitment and continuity.</p> <p>Regular review of progress and problems to implementation through periodic meetings between exporters and implementors, say on monthly basis, to iron out differences rather than wait for a crisis.</p> <p><i>Production</i> Government needs to provide production assistance to, especially, small and medium scale enterprises to enable them feed into export houses.</p> <p>(a) The assistance could be in the form of streamlining rural lending, ensuring availability of market and production information, education of exporters, development of infrastructure and integration of markets.</p> <p>(b) Rationalisation of foreign Embassies with a view to promoting exports. This could be done by institutionalising the roles of Commercial Attachés at open embassies abroad to work with Exporters Associations in promotion of exports.</p> <p>(c) More meaningful liberalisation with a view to removing obstacles to trade as export incentives take root and efficiency increases. This could be done through gradual removal of protection from producers of import substitutes.</p> <p>(d) Local infrastructure needs serious up-gradation and rationalisation.</p> <p>(e) Exporters should receive an implicit subsidy to reduce tariff rates on utilities to a level that is competitive with rates of other countries in the region.</p> | <p>MFEP, MOTI URA</p> <p>MFEP, MOTI UEPC, URA Exporters Association</p> <p>BOU, MFEP, MOTI, UEPC, Commercial Banks</p> <p>MOTI, MFEP, MOFA, Exporters Association</p> <p>MFEP, URA</p> <p>MFEP, MOTI</p> <p>MFEP, URA</p> |

| ISSUES | ACTION | AGENCY |
|--|--|--|
| Institutional Framework for Export Development | Minister of Trade & Industry should act on some of the out-standing issues regarding functioning of the UEPC, e.g, appointing Management Board and recruitment of staff. | MOTI |
| Export Finance <ul style="list-style-type: none"> • The Bank of Uganda Export Refinance Scheme operates with only about Shs. 2 billion. • Level of defaulting is too high which has led to banks' reluctance to provide assistance to the exporters. | <ul style="list-style-type: none"> (a) The funds-base of Shs. 2 billion for the Export Finance Scheme is very inadequate. Government should seriously consider boosting the funds-base. (b) Interest rate on funds is prohibitive. Government should adopt measures that reduce the cost of funds. Government should also provide incentives both to banks and exporters, e.g. tax relief. (c) To enhance effective operation of the export refinance scheme, commercial banks should consider taking insurance cover or credit guarantee where exporters might be unreliable. (d) Strengthen export service organisation through improved institutional support and availability of export information. (e) Authorities should reduce administrative constraints. (f) Exporters should be trained through seminars & workshops on marketing, quality control, and other aspects of exporting. | <ul style="list-style-type: none"> BOU, MFEP BOU, MFEP BOU, Commercial Banks, Insurance companies NRC, MFEP, MOTI GOV'T UEPC, MOTI |
| Infrastructure and Logistics The specific advantages of railway over road transport : <ul style="list-style-type: none"> - Lower freight charges - Higher utilisation and building of national infrastructure capacity - Strategic importance as a result of Uganda's landlocked situation - Better security of cargo - Higher fuel economy - Environmental safety Needs of users and the service providers (URC) : <ul style="list-style-type: none"> - Short transit time (Users and URC) | <ul style="list-style-type: none"> (a) <u>To the Uganda Railways Corporation (URC)</u> <ul style="list-style-type: none"> i) URC should market its service to take advantage of the long demurrage for road transport at Nakawa Customs goods terminal. ii) URC should continue to improve the convenience and efficiency of its service both to users and itself. iii) An agreement on complementariness in distribution should be entered between URC and hauliers on distances for which each is most efficient: long ones for URC and short ones for hauliers. iv) URC should aggressively market its service to the business community in Uganda and the PTA. | <ul style="list-style-type: none"> URC and Transporters Association |

| ISSUES | ACTION | AGENCY |
|---|--|----------------------------------|
| <p>- Low cost (users & URC) - Convenience; containerised service (users & URC) - Stable volume of freight into and out of the country (URC)</p> <p>Exchange Rate Policy</p> <p>Integrated Commodity Systems The ideal is to adopt an integrated approach to promoting traditional and non-traditional commodity exports.</p> | v) URC should rehabilitate warehouses and, where necessary, construct new ones at points of loading goods. | URC and Transporters Association |
| | (b) <u>To the Government</u> | |
| | i) Government should encourage investment in railways infrastructure, e.g. use of flat-bed wagons and containers. | MFEP |
| | ii) Government should improve access roads to rail terminals. | MFEP, MOWT&C |
| | iii) Government should remove CTL from rail services to encourage increased use of rail transport. | MFEP, URA |
| | iv) Government should make clear its sectoral transport needs, particularly in encouraging exports. | MFEP |
| | (a) There should be scope for intervention to stabilise the exchange rate provided the fluctuation is transitory and the intervention in line with the overall government macro-economic policy. | BOU, MFEP |
| | (b) Given the current Ugandan situation of low tax revenue to GDP ratio (about 8%) and a high ratio of expenditure to GDP (about 23%), efforts should be made to raise the tax to GDP ratio. Agriculture which is the major contributor to GDP, but currently not adequately taxed, should be appropriately taxed in order to raise the revenue to GDP ratio. This will in turn ensure exchange rate stability and lower interest rates. | MFEP, URA |
| | (c) Government should design an Export Compensation Scheme to protect exports from price fluctuations. | MFEP, MOTI |
| | (d) Bank of Uganda should develop modalities of educating the public on whether changes in monetary conditions are permanent or transitory. | BOU |

| ISSUES | ACTION | AGENCY |
|---|--|---|
| <p>Problems facing integrated commodity systems at three levels:</p> <p><i>Production</i> Major constraints identified at production level are shortage of input supplies; harvesting/storage & handling; research and extension; shortage of labour at peak period; lack of credit facilities; low prices; pests and diseases; and poor technology.</p> <p><i>Marketing Chain</i> Poor physical infrastructure which incorporates roads, railways, storage, communication and transport facilities; lack of information about markets and prices; and lack of credit facilities for processing, buying produce, etc.</p> <p><i>External Market</i> Location of markets; protectionism for commodities exported; and competition from other exporters of similar commodities.</p> | <p><i>Production</i></p> <p>i) Provision of appropriate production credit to cater for inputs, storage and labour supply.</p> <p>ii) Strengthening of institutional support for traditional exports and establishing institutional support for non-traditional exports</p> <p><i>Marketing chain</i></p> <p>i) Improvement of the existing infrastructure: roads, feeder roads, railways, etc, and establishment of cold storage chains for non-traditional exports.</p> <p>ii) Institutional support to disseminate market information</p> <p><i>Export market</i></p> <p>i) Strong political commitment by government for active participation in trade agreements and contracts that support regional cooperation and encourage traders to take advantage of the regional market.</p> | <p>Commercial Banks, BOU</p> <p>MOTI, MFEP, EPADU</p> <p>MOTI, URC, MFEP</p> <p>MOTI, UEPC</p> <p>GOV'T, MOTI</p> |
| <p>2. Tourism</p> | <p>The report on tourism is a plan of what is to be done; the Ministry of Tourism is trying to attract new investors into the tourism industry. The Working Group has little to do on tourism at the moment. UMACIS was charged with the task of following-up on any developments.</p> | <p>UMACIS to follow-up.</p> |
| <p>3. IPC Networking Conference</p> <ul style="list-style-type: none"> • Autonomous National Export organisation. • Strengthening Private Sector Associations • Effective Financing pre/post and production | <p>Conference was successfully held from 13 -15 July 1994, with the following outcomes as the specific Action Plans for Uganda :</p> <p>(a) Identify funding & subscribers</p> <p>(b) Incorporate a new Export organisation.</p> <p>(c) Develop a corporate plan</p> <p>(d) Repeal UEPC Act</p> <p>(a) Form umbrella exporters' Associations</p> <p>(b) Logistical support</p> <p>(c) Staff Development</p> <p>(a) Finance Institutions</p> <p>Venture Capital Revolving fund</p> <p>Leasing companies</p> <p>Discount Facility</p> <p>Export guarantee Re-finance scheme</p> | <p>MOTI, National Forum (NF) EPADU, MFEP</p> <p>EPADU, UMA, ASSOC.</p> <p>BOU MFEP NFFSD EPADU, DEV. BANK</p> |

| ISSUES | ACTION | AGENCY |
|---|--|---|
| <ul style="list-style-type: none"> • Realistic & stable Exchange 4. National Seed Bill 5. Agricultural Extension Programme 6. Umbrella Association for Exporters 7. Export Information | <ul style="list-style-type: none"> (a) Lobby BOU, MFEP, IMF (b) Research and Analysis - UMACIS to study Seed Bill and report to Working Group. - Min. of Agriculture should review progress and problems to implementation of recommendations in Report on Agricultural Extension Services and Programme. - Questionnaire and list for exporter survey were not ready by the end of the last meeting of the Working Group - Continue efforts to facilitate feedback from UEPC clientele. - Bulletin should report on progress being made in the new areas of investment, e.g., silk farming. - Redesigned Export Bulletin to ensure that information published is relevant to the exporting society in Uganda. | <ul style="list-style-type: none"> EPADU, NF, Export Wkg. Grp., BOU, EPADU, MUK, EPRC MAAIF UEPC, EPADU UEPC or New Export Organisation |

**NATIONAL FORUM ON STRATEGIC MANAGEMENT
FOR PRIVATE INVESTMENT AND EXPORT GROWTH
WORKING GROUP NUMBER 3
ENABLING ENVIRONMENT: FINANCIAL SECTOR DEVELOPMENT
AUGUST 1994
ACTION PLAN RECOMMENDATIONS**

| POLICY ISSUE | AGENCIES CONCERNED | ACTION REQUIRED | ACTION TAKEN TO DATE |
|-------------------|--------------------|--|--|
| 1. Liquidity | BOU | 1.1 BOU facilitate the establishment and operation of Interbank market | Forex Interbank money market set up on November 1, 1993, |
| | IOB | An Interbank market in local currency is urgently needed and BOU should look into this matter. Working Group requested the Institute of Bankers to monitor operation of forex Interbank market. | Informal Shilling Interbank money market has started operating. Institute of Bankers has started monitoring |
| | BOU, MFEP | 1.2 To improve the liquidity management in the economy, BOU should be integrated into the forex market | Reserve money program is already in place and BOU Balance Sheet management, together with the Interbank market. |
| | BOU | 1.3 Reduce the cost to commercial banks of the Reserve requirements with a view to increasing deposit mobilisation. | 30% of vault cash is now an eligible reserve asset. The cash reserve requirements have been reduced from 10% to 7% for Time and Savings accounts and 8% for Demand deposits. |
| | UBA | The Working Group noted that BOU should pay interest on reserves so as to reduce the cost to CBs for deposit mobilisation. Working Group requested the Bankers Association to write to the Governor, BOU, setting out the cost of maintaining reserves and making out a case for reducing this cost so as to motivate deposit mobilisation. | A letter from the Chairman of the Working Group was written to the Governor of BOU. |
| | BOU | 1.4 BOU should have options to make money to enhance BOU independence but this should not be done at the expense of CB's. | Restructuring of BOU under the Financial Sector Adjustment Credit, FSAC, has begun. |
| 2. Monetary depth | | 2.1 Encourage financial institutions to establish operations upcountry. Working Group recommended the re-introduction of tax incentives to banks that open upcountry branches. Provisions for bank losses should not be taxed. The Working Group recommended that a study be undertaken to identify areas upcountry with potential for expansion of banks | Nile Bank is to introduce mobile banking. UBA will effect collective action. Effective July 1st 1994, BOU has started opening local clearing to areas serviced by more than one CB and regional centres. |
| | IOB | The IOB was requested to study this issue and make recommendations to the Working Group. | IOB still carrying out the study. |

| | | | |
|--|-----------------|--|--|
| | MFEP MOJ | 2.6 Introduce monetary penalties for bad cheques, enforce prosecution for bank fraud. Working Group recommended that penalties should not be fixed but be commensurate with the amount of money involved. Working group recommended that a study be undertaken to find out why cheques are not so widely used and to make appropriate recommendations. | Penal Code was amended to introduce penalties for bad cheques |
| | URA | 2.7 Allow URA Tax Collection at all registered commercial banks to speed up tax collection. Recommended that the monopoly of UCB be broken to allow other banks to receive tax payments. | A letter from the Chairman of the Working Group was written to the Commissioner General of URA. |
| | BOU, MFEP, UBA | 2.8 Increase competition, add more financial instruments/institutions (e.g. leasing), mortgage finance, consumer education, mobile banking, building societies and insurance. Working Group recommended setting up of a discount house where short-term instruments can be liquidated. Working Group requested BOU to facilitate the process, and to extend a long-term loan to the discount house. Working Group recommended a study to identify financial instruments that should be introduced. | Nile Bank is to introduce mobile banking facilities upcountry. More financial instruments will be introduced soon. DFCU in conjunction with other shareholders has incorporated the Uganda Leasing Company. A discount house study is to be commissioned by the Working Group. A Proposal has been submitted to the funders for approval. |
| | MFEP, BOU | 2.9 Develop secondary markets (e.g. money and capital markets) to increase long-term savings. KSE urged to follow up with Barclays, BAT and other blue-chip firms as a pool to start with. Govt should give commission to authorised primary dealers to trade in Treasury Bills as a way of encouraging the development of secondary markets. Primary dealers should be selected, on condition that they have to re-sale. BOU should give them credit facilities and collateral to encourage primary dealers to trade. | Dept has been created at BOU. A securities trading law has been drafted by the Commonwealth Secretariat, to be tabled to NRC soon, to pave way for the formal establishment of the Stock Exchange. OTC system expected to commence by mid 1994. Capital Markets Development Committee set up. USAID and KSE conduct monthly public lectures. A consultant to CMDC has been sponsored by USAID. Treasury Bills transactions have increased, marking a sharp rise in the developing of the money market in Uganda. Two institutions are already participating in the secondary market trading on treasury bills. Treasury Bill certificates made "bearer payable" and issued in standard denominations. |
| | BOU, MFEP | 2.10 Government should pay interest on its domestic debt, purchase through LCs, if they don't, then pay interest on arrears. Working Group recommended that GOU should pay interest from date of incurring the debt and not from date of verification. | Verification committee has been set up. GOU pay 15% interest on its domestic debt; once debt is verified, creditors is issued with a promissory note and interest is paid from date of verification. A letter from the Chairman of the Working Group was written to the PS/ST in the MFEP. |

| | | | |
|------------------------------------|-----------|--|--|
| 3. Credit and Interest Rate Reform | BOU | <p>3.1. Liberalise interest rates and de-control charges/fees on export refinance.</p> <p>Working Group recommended that Government set up an export finance fund at BOU, the initial fund to be at conventional rate of interest so as to increase the incentive for CBs to participate in the scheme and reduce their operational costs. Under this scheme, CBs would retain a margin of 5%, instead of the current 3% which is considered inadequate.</p> | Interest rates on deposits are liberalised but those on development loans are still regulated. |
| | | <p>3.2 Eliminate tax on provision arising from non-performing assets - to be confirmed by external auditors.</p> <p>Working Group recommended that URA should not charge tax on provisions for bad debts, such a tax amounting to a tax on capital, and negates BOU rules requiring banks to make provisions for bad debts.</p> | <p>Bank Supervision, BOU, is in discussion with URA over the issue.</p> <p>A letter from the Chairman of the Working Group was written to the Commissioner General of URA.</p> |
| | BOU, MFEP | <p>3.3 Establish an equitable relationship between earnings on Treasury Bills and bank deposits. Working Group recommended that MFEP/URA should not charge tax on earnings on bank deposits to put them at par with earnings on Treasury bills.</p> | A letter from the Chairman of the Working Group was written to the Governor of BOU. |
| | MFEP | 3.4 Government should eliminate involvement of banks to procure inputs. | Conditionalities on banks to procure inputs for loanees have ceased. |
| | | <p>3.5 Assist priority sectors (e.g. agriproduction) with feasibility studies, better extension and other services, infrastructure, training.</p> <p>Working Group recommended that the UMA Consultancy should reduce the requirements which currently inhibit investors from utilising the fund. It should also subcontract consultants to do excess work. UNCCI and USSIA should also be assisted with similar funds.</p> | <p>Feasibility study fund set up at the UMA Consultancy for investors with agro-processing projects.</p> <p>UMA Consultancy already sub-contracts for excess work and is working with the feasibility study fund committee to ensure that deserving projects qualify. The IDEA project (Investing in the development of Export Agriculture), funded by USAID, will seek to improve agricultural extension services in the country.</p> |

| | | | |
|------------------------|----------------|---|---|
| | MFEP, BOU, UBA | <p>3.6 Establish a Debt Collection Agency-buy bad debt at a discount.</p> <p>A critical issue identified by the Working group is whether GOU should take over bad debts of all commercial banks which arose as a result of GOU's non-payment, seizure of borrower's properties, breach of contract or interference. UBA was asked to make a cogent presentation to GOU establishing non-performing assets across the board and show that it is not only UCB which is suffering and suggest a meeting with the Minister of F&EP. UBA can solicit technical assistance to do this. The report should clearly identify and distinguish between bad debts which are due to poor management and those due to war and GOU interference. The Working Group requested BOU representative to provide data on GOU domestic and external debt.</p> | Debt Collection Agency will be discussed by the NRC soon. Under the FSAC, which has been negotiated with the World Bank, the bad debt portfolio of UCB will be taken over and if the exercise is successful, then even Cooperative Bank could benefit. |
| 4. Foreign Exchange | BOU | 4.1 Liberalise use of forex accounts | <p>Legislation has been prepared and will be tabled before the legislature soon.</p> <p>A study is being conducted by BOU.</p> |
| | CB | 4.2 Reduce forex costs to importers | Costs have reduced significantly due to competition among banks and forex bureaux and due to liberalisation of forex business. |
| | BOU, MFEP | 4.3 Encourage repatriation of overseas balances to domestic banking system with no taxation | The introduction of forex bureaux and liberalisation of forex transactions have led to a dramatic increase in the repatriation of forex by Ugandans abroad. |
| | CB | 4.4 Commercial banks should pay interest prepaid for forex imports. | |
| | MFEP | 4.5 Explore reactivation of suppliers' credits guaranteed by commercial banks, official export government guarantees, official suppliers' credits. | <p>Guidelines on suppliers' credit guaranteed by commercial banks have been circulated to all commercial banks.</p> <p>An UNCTAD/ITC/UNDP consultant has advised GOU on the establishment of an export credit guarantee system, which is likely to be put in place in the next financial year.</p> |
| 5. Bank Capitalisation | BOU, CB | <p>5.1 Expertise to help financial institutions value, list and offer shares to public.</p> <p>The Working Group noted that some banks, such as Nile Bank and Co-operative Bank, have consultants who could be utilised by other banks. The Working Group requested the Chairman CMDC to approach USAID for technical assistance to the Committee.</p> | <p>MFEP has now formed a Capital Market Development Committee under the chairmanship of the BOU - charged with implementing this recommendation.</p> <p>The Minister of F&EP and the Chairman of the CMDC have requested USAID for technical assistance to the CMDC.</p> <p>A Consultant is here and started working.</p> |

NATIONAL FORUM ON STRATEGIC MANAGEMENT FOR PRIVATE INVESTMENT AND
EXPORT GROWTH TAX POLICY AND ADMINISTRATION WORKING GROUP
INTERIM PROGRESS REPORT, DECEMBER 30, 1993

1.1 Enforce Anti-Dumping Law and Strengthen GOU Machinery to Monitor and Control Smuggling

An Anti-Smuggling Unit had been formed within the URA and was trying to fight smuggling country-wide. It was hoped that with more training and experience, the Unit would reduce the incidence of smuggling. However it was noted that government had to reduce the incentive to smuggle through rationalisation the tax structure vis a vis our neighbours.

Heavy duty trucks had been allowed to travel at night so as to reduce on transport delays and customs checks had been strengthened to keep abuse of the measure by smugglers at a minimum.

1.2 Redefine industrial raw materials to include packaging materials and industrial spare parts.

This action had been implemented, but since all raw materials imported attract an import duty (10%), the redefinition did not help the tax payer.

1.3 Protect local industries through use of fiscal and administrative instruments where necessary

Government relied on the 18% surcharge to protect local industries against unfair competition from Kenyan exporters. The representatives of the MFEP and URA felt that GOU had done all it could to protect local industries but was limited by a narrow tax base and the need to lessen dependence on donor funds. Other members of Working Group felt that Government had imposed an inordinate level of taxation on local industries, while reducing import duty and that the few visible tax payers were having to pay for the URA's failure to track down the tax evader.

There was disagreement among members, on the short term tax policy measures. Members from the MFEP and URA felt that in the short term, Government has no alternative but to rely on existing tax payers, pending measures to broaden the tax base. Other members were of the view that attempts by Government to maximise tax revenue from the already overburdened tax payers would lead to greater hardship and possibly closure of local industries.

1.4 Rationalise the procurement and pricing of petrol products.

This had been done.

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Members agreed that the URA has improved its public relations and education department and that its programmes on radio and T.V. were commendable. It was suggested that tax payers be educated on how to save and to invest, as well as legitimate ways of lessening their exposure to tax. In addition, more people should be reached out - for instance those in rural settings, who are not yet even in the tax bracket.

4.1 Abolish discounts on imports currently allowed for tax purposes.

These have been abolished.

4.2 Review commissioner's valuation list and 5.1 Encouraged and streamline re-export trade

Other points raised.

- All members agreed that it is very essential for the government to improve its capacity to collect, analyse data and to exchange information with the tax payers.
- Mr. Mugerwa of the Tax Policy Unit be co-opted on the Working Group.

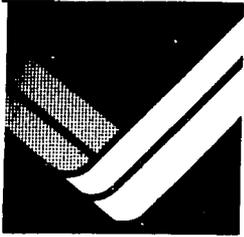
Recommendations:

NATIONAL FORUM WORKING GROUP ON

ENABLING ENVIRONMENT: TAX POLICY AND ADMINISTRATION
ACTION PLAN DEVELOPED IN A MEETING HELD AT SHERATON KAMPALA HOTEL ON
WEDNESDAY, MARCH 30, 1994

| Issue | AGENCY | Action |
|--|--|--|
| 1. Stability and predictability in tax policy and tax rates | MFEP | 1.1 Tax rates be fixed on a multi-year basis 1.2 Consultation with private sector before preparing budget and determining tax policy |
| 2. Duty Drawback system: Procedure for release of funds from Consolidated Fund too involved, causing cash flow problems for exporters | URA MFEP URA URA | 2.1 Inventories be held in bond. Private sector not to be discriminated 2.2 Duty Drawbacks and incentive regimes be streamlined. Drawbacks be administered by URA, not MFEP 2.3 URA to make book entries, crediting payer for succeeding month. URA can then claim reimbursement or operating credit from the Consolidated Fund |
| 3. Breadth and depth in tax collection, in terms of : • ability to collect from potential Sources • efficiency and impact in collecting existing taxes | MFEP URA Local Admin URA GOU URA MFEP URA URA Taxpayers, UMA URA | 3.1 Tax collection in rural areas be improved 3.2 URA use Local Administrations as commission agents 3.3 URA and Local Administrations be merged for tax assessment and collection 3.4 Broaden tax education 3.5 Creation of tax culture: low tax rates 3.6 Simplify tax forms 3.7 Use accountants in completing forms 3.7 Drafts of other banks, apart from UCB, be accepted for tax payment, should the banks show interest |
| 4. Broadening tax base | GOU GOU URA MFEP MFEP URA | 4.1 New tax bases be identified 4.2 More taxation on agricultural sector, and on personal income and wealth 4.3 Local tax administrations be used by URA 4.4 Graduated and income taxes be integrated 4.5 VAT be introduced, but not cautiously. Proper administrative machinery be put in place |

| | | |
|--|---|--|
| <p>5. Cash flow problems, due to :</p> <ul style="list-style-type: none"> • large inventories • weak financial system, • high interest rates, • late or non- payment by GOU, • SGS inspection | <p>MFEP URA</p> <p>MFEP</p> <p>URA GOU</p> | <p>5.1 Tax liability (collection) be postponed till the good is produced or sold</p> <p>5.2 Holding inventories in bond be promoted</p> <p>5.3 SGS monopoly be ended, competition be encouraged</p> <p>5.4 Pre-clearance for shipments beyond a threshold, with random URA inspection; shipments below the threshold and those from countries without resident inspectors be post-inspected by URA</p> |
| <p>6 Revenue sharing</p> | <p>GOU</p> <p>GOU</p> <p>Local Admin</p> | <p>6.1 Alternatives to block grants be devised e.g. Local Administrations retain a percentage of the revenue they collect</p> <p>6.2 Certain taxes be specified for retention of the revenue therefrom by Local Administrations</p> <p>6.3 Local Administrations use tax revenue on tangible projects for payers to see and appreciate the use of tax revenue</p> |
| <p>7. Dispute resolution</p> | <p>GOU MFEP</p> <p>GOU</p> | <p>7.1 Tax tribunals provided in 1993/4 budget be established</p> <p>7.2 The tribunals be within MFEP, not URA</p> |
| <p>8 Other Items:</p> <p>GOU budget secrecy</p> <p>Report to GOU</p> | <p>GOU Tax Policy Working Group(TPWG)</p> <p>TPWG</p> | <p>8.1 Range of secrecy be reduced</p> <p>8.2 Formulate the ideas established in the meeting of March 30, and present them to GOU for action</p> |



**IMPLEMENTING
POLICY
CHANGE
PROJECT**

**MANAGEMENT
SYSTEMS
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January 4, 1995.

S. Wade DeWitt
Document Acquisitions
PPC/CDIE/DI
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Washington, DC 20523-1802

Dear Mr. DeWitt,

I am submitting to CDIE the enclosed documents of Project #936-5451, the Implementing Policy Change (IPC) Project (Contract #DHR-5451-Q-00-0110-00). A list of these documents is enclosed for your reference.

Sincerely,

Susan Scribner
Deputy Research Director

Project Consortium Members:

Management Systems International, Prime Contractor
International Development
Management Center at the University
of Maryland
Development Alternatives, Inc.

Associated Organizations:

Institute for Public Administration
Research Triangle Institute
Deloitte and Touche
Thunder & Associates, Inc.
International Management Development

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