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Country Development Strategy Statement

FY 1984

Uganda

January 1982

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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EMBASSY OF THE
UNITED STATES OF AMERICA

February 16, 1982

Mr. Frank S. Ruddy
Assistant Administrator
Bureau for Africa
Agency for International Development
Washington, D.C. 20523

Dear Mr. Ruddy:

Uganda is fast approaching a watershed in terms of the direction of its economic development policies. After a decade of mismanagement and military rule the Government has initiated a bold economic reform program that urgently needs support to become firmly established. The reform program is consistent with the policy directions President Reagan articulated in his Philadelphia speech. It consists of mobilizing export earnings through international trade, eliminating administered prices and stimulating free market forces, encouraging the growth of the private sector, divestiture of parastatals and government enterprises, and rehabilitating the country's human capital and institutional base. Whether this program succeeds will depend substantially on the level of outside support the Government can generate in the immediate future until its export earnings are up and its commercial creditworthiness restored. If support is not forthcoming, this major initiative could well fail, with unfortunate consequences for other countries that may be considering similar policy changes.

The FY 1984 CDSS for Uganda proposes concentrating AID resources almost exclusively within the agricultural sector. Increased agricultural production will have the most immediate impact on the quality of life of the country's poor. It will provide the foreign exchange needed for rebuilding other sectors in the economy. Furthermore, improving agricultural productivity will stimulate demand from private enterprises servicing Uganda's farm community. Thus, rehabilitating private businesses will be an integral part of AID's strategy to get Ugandan agriculture moving again.

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I. INTRODUCTION: THE DEVELOPMENT ENVIRONMENT

In ordinary circumstances the CDSS would not address security issues. However, given the history of Uganda over the past ten years and the concern for security that has been expressed by American officials, it becomes important to examine whether or not the security situation is a constraint to development. For example, given check points manned by police and soldiers, can ordinary farmers market their produce without unreasonable harassment and demands? Can they produce in an atmosphere of hope and a degree of rising expectations? In terms of personal and econonic security can foreigners and returning Asians travel, inspect and invest in reasonable security? Is the environment such that assistance programs can be planned and implemented? Or, does the presence of guerillas place all of these prospects in undue jeopardy? An economy has little chance of being stabilized and readied for development unless security is under control. The willingness of producers and consumers to participate in the market economy and the degree of confidence donors may have that their constributions will pay off rests heavily on the broad spectrum of security conditions and the way that power is exercised.

When the Military Commission then ruling Uganda announced elections for late 1980, politics returned to Uganda with their

past zeal. But if one is to understand political and attendant security factors as they affect economic decisions, a background note will be instructive.

Perhaps nowhere in Africa has politics been more complex and more visible than in Uganda. Historical and religious issues have compounded the political problems usually associated with African countries having large and strong tribes. There has been and still is a close relationship between tribal linkages and modern political parties. Dating back to the eve of independence in 1962, Dr. Obote's Uganda People's Congress Party (UPC) with strong Northern support joined in alliance with Buganda's Kabaka Yekka (KY) party to form a UPC-KY government with Dr. Obote as Prime Minister and the Kabaka (King of the Bugandas) as President. Then, as now, the opposition was the Democratic Party, a party which had its base in the Catholic Church but now has strong support among much of the Buganda community. By August of 1964, crossover in Parliament from Kabaka Yekka and the Democratic Party gave UPC a majority in the Parliament and Dr. Obote dissolved the coalition. Following charges in Parliament by a group of UPC members that Dr. Obote had been guilty of misconduct, Obote had a number of Ministers arrested, announced he had taken over all government power, suspended the constitution, and on the basis of a new constitution was sworn in as President. The Buganda government rejected the new constitution, rioting and fighting broke out in

many parts of Buganda and finally Government forces seized power in Buganda and the Kabaka fled to England. The campaign for the election which was held on December 10-11, 1981, was bitterly fought and when Dr. Obote and the UPC were declared winner, there were charges of fraud from the opposition parties and some politicians left the country while others "took to the bush" and formed guerilla forces.

Some problems of insecurity do exist. In some parts of Buganda surrounding Kampala in an arc of about 40 miles there is some guerilla activity. The evidence indicates that the presence of guerillas, fear of Government troops and the activities of armed robbers of undetermined origin is limiting economic activity in parts of Buganda to some degree. It undoubtedly has an adverse effect on coffee marketing and the marketing of agricultural products in local markets. There also continues to be some dissident activity in the further reaches of West Nile district carried on by remnants of Amin's army. On the whole insecurity appears to be decreasing in both areas and there is every reason to believe it will continue to do so. Other than cattle raiding by the Karamojong, which hardly deserves to be categorized as a security problem in the present context, there are no security problems in the remainder of the country.

What then can be said in summary about the state of security in Uganda as it might affect development? The Government is presently in firm control of the country and there appears little likelihood that this situation will change. In the vast majority of the territory there are no security problems to interfere with the normal conduct of business or economic development activities. In the two areas where security problems do, to some extent, inhibit economic activity, while the situation is demonstrably improved, there is still some perception by local residents that safety of person and property may be in jeopardy. We anticipate that, as things remain quiescent, this perception will gradually dissipate and economic activity will regain its former intensity.

Even when the security situation was not as positive as it is now, AID has been able to contribute to the country's economic development. Since FY 1979 AID has disbursed more than $35 million in Uganda (see Table I). A substantial part of this assistance was for famine relief. However, AID has been able to deliver $3 million in farm inputs throughout the countryside through the Ministry of Cooperatives and Marketing. Six advisors have worked upcountry in three separate project sites under the Experiment in International Living project. The water supply for Mulago Hospital has been rehabilitated and a number of OFDA-funded grants have been implemented successfully.

TABLE 1

U.S. ASSISTANCE TO UGANDA

FY 1979

	Purpose	Amount
1.	Grant to CARE for Seeds & Hoes	$ 200,000
2.	Grant to Uganda Cancer Insitutue	10,000
3.	Grant to Uganda Red Cross	15,000
4.	Grant to EIL - Training Displaced Persons	1,073,000
5.	Grant to CARE - School Construction	600,000
6.	Grant to International Rescue Com. - Operation of Medical Clinics	57,000
7.	Grant of PL 480 Commodities for WFP	800,000
8.	Grant to GOU to Import Basic Agricultural Implements	3,000,000
	Total	$ 5.755.000

FY 1980

1.	Grant to CARE for Food Transportation	208,000
2.	Purchase & Air Transport of Medical Supplies	423,500
3.	Purchase of Medical Supplies (3 Separate Grants)	31,790
4.	Inland Transport of Medical Supplies	10,000
5.	Grant to UN for Airlift of Maize from Ethiopia	138,000
6.	TDY of Hydrologist	8,458
7.	Mulago Hospital Water Project	270,000
8.	Grants to UNHCR (Support of UN Appeal)	2,500,000
9.	Grant to CARE for Transportation of Food	360,000
10.	CARE Distribution of Corn, Corn Meal, Vegetable Oil plus Ocean Freight to Mombasa/Inland Freight to Kampala	16,242,000
11.	Grant to UNHCR	1,000,000
12.	Self-Help Projects	100,000
13.	Mulago Hospital - Medical Supplies	453,933
14.	Transport of Ballot Boxes & Related Equipment	50,000
	Total	$21,795,681

FY 1981

1.	Food Production Support Project	2,000,000
2.	Title II Emergency Feeding Program (Estimate)	12,000,000
3.	Self Help Projects	150,000
4.	Transport of Ballot Boxes	150,000
	Total	$14,300,000

USAID staff have been able to move freely throughout the country and have had no significant security problems in over a year and a half. Thus, the security situation has not been an important factor affecting AID's ability to promote Uganda's economic rehabilitation.

One final note on security is in order. A potential cause of growing unrest leading to a security problem lies in the very low wages (the minimum wage of UShs 950 equals $11 per month), and salaries (a dean at Makerere University is paid roughly $36 per month). The wage earner cannot possibly buy two weeks' supply of food at current prices and a professional can just buy one tank of gas for his/her car once a month. This situation is politically exploitable and could cause problems in the future.

In conclusion, security does not appear to be a significant deterrent to economic development. Such security problems as do exist are confined to two small geographical areas. All indications are that security has improved greatly over the past year and will continue. Extremely low personal incomes in urban areas have the potential of being the cause of security problems.

II. ANALYSIS

A. ANALYTICAL DESCRIPTION OF THE POOR

Uganda is a poor country. While the country is endowed with the natural and human resources necessary for economic and social progress, the evidence indicates that it is poorer now than it was in 1971. In 1971, Uganda's Gross Domestic Product in 1966 prices was UShs 7,497 million. By 1978, it had declined to UShs 7,225 million. Perhaps more significant is that non-monetary GDP increased during the period but that GDP for the market economy declined by 18.5 percent. The economy continued to decline in 1979 and 1980 during the war to overthrow Amin and the following unstable situation. However in contrast to the Amin period both monetary and non-monetary portions of the economy decreased by about 9 percent each during 1979 and 1980. The decrease in non-monetary GDP is accounted for by the ravages of the Liberation War and subsequent drought. Thus, the decade of the 1970's in Uganda was characterized by widespread price (but not wage) inflation, highly disorderly markets, an overvalued exchange rate, progressive deterioration of both physical and human capital, severe malfunctioning of the cooperatives and parastatals, excessive dependence on administered prices and rationing with a consequent growth of black market activities which decimated the economy and, finally, a chaotic internal and external financial situation.

It is necessary to examine the poor in Uganda in the context of an economy which is not only producing less but is also characterized by a significant demonetization. Prior to 1971, it would have been possible to characterize the poor in the following way. They would have been rural. One grouping lived north of the Victoria Nile and was largely dependent on annual row crops and livestock. For the most part incomes could have been expected to decrease as one approached the northwest and northeast boundaries of the country. The other group of rural poor would have been landless laborers living south of the Victoria Nile earning the minimum wage or less.

However in the post-Amin period identification and characterization of the poor is a more complex matter. In an economy in which price inflation was rampant--and the wage scale increased only marginally--the cost of living index for low income families increased by 942 percent during the period 1972 to 1978 and the real minimum wage in 1978 was only 20 percent of the 1970 level--the real poor in a relative sense were those who did not have alternatives or supplements to wages. These were the urban lower and middle income wage earners. This is not meant to imply that the rest of the people were well off since most of them were not; they were poor by any standard. But the greatest economic privation and relative decline in standard of living was incurred by those solely dependent on income from one monetized source.

The reasons for this are relatively simple. Farmers could shift from producing crops sold in overseas markets to those for home consumption and sell on local markets. They might initially experience some decrease in cash income, but given the fixed prices for such products as tea, coffee, cotton, etc. and the freely inflating market for domestically consumed farm products, income would begin to rise as their production pattern changed to increased production of domestically consumed products. Their costs would also decrease by the shift to lower technology/lower input production and their subsistence income would increase. Or, alternatively, they could smuggle crops such as coffee in eastern Uganda or vegetables in southwestern Uganda to markets which paid substantially higher prices. For farm labor the alternative was simple. Most of them were foreign migrant workers and they simply returned to Rwanda, Burundi or Zaire. A small number, largely the sugar plantation workers, were from West Nile District and they either returned home or, more likely, went into Amin's army. Among urban workers, including government employees, some were able to supplement their salaries in various ways. High officials in the Amin regime received privileges under the rationing system that enabled them to enrich themselves. Middle and lower income persons supplemented their income by working only a portion of their time on their regular job and moonlighting on one or more jobs. Government doctors would take on private practice, teachers would

do private tutoring, clerks would engage in black market activities, etc. Others, if they had access to farm land, supplemented their incomes with produce they raised on the land for their own consumption or sale. For none of these people, except Amin's favorites, was life easy. Their standard of living declined but failing to do some or all of the work they were paid to do on their regular jobs, they were able to avoid some of the penalties imposed by inflation and the inequities of the administered economy. The remaining middle and lower income urban workers who could not, for a variety of reasons, find alternative sources of income were forced to absorb through lowered standards of living a disproportionate share of the losses in income of the Uganda economy.

While the landless urban employed with only one source of income were hardest hit in the Uganda economy of the 1970's, this does not mean that very many Ugandans were very well off. Most Ugandans suffered in ways that are incomprehensible to us. In the area of social services, the rural population suffered losses that were probably greater than those that occurred in urban areas. Although the institutions remained intact but battered, and staff was to a large extent maintained in place, social services, broadly conceived, virtually disappeared in both rural and urban areas. Health and educational services may have been marginally better in the cities than in the countryside but this only continued historical patterns.

Thus, today in Uganda, consideration of the poor starts with the country itself. Uganda in 1981 was poorer than it was in 1971, perhaps as much as 25 percent poorer. For at least the past five years, the "name of the game" has been survival except for a small minority of the population. While some survived better than others and old differences in economic and social well-being remain (it is still better to be a peasant in the fertile crescent around Lake Victoria than in the dry lands of Karamojo), the essence of the poverty problem in Uganda is the poverty of the country itself. Paradoxically, the country is poorer at the macroeconomic than at some of the microeconomic level. The rural smallholder has been remarkedly resilient and, except for the decline in some social services, has been able to pretty well maintain his/her standard of living and productive powers. This represents a tremendous potential for bringing the Uganda economy back to previously attained levels of production and moving on to development.

It will be necessary as development proceeds over the next decade for Uganda and the donor community to follow development policies which reduce inequities "...but what Uganda needs most is immediate aid to raise productivity and multiply opportunities for gainful employment. This emphasis on productive efficiency rather than distributive equity should not, however, be regarded as an appropriate strategy for long-term national development. Insofar as many of Uganda's current problems can be laid to regional disparities, attempts should be made to redress them; but this is a long term task. Research and

planning to assess and address inequities can begin now, but the first priority is for stability in government and economy, which may best be achieved by raising productivity and increasing employment in the country as a whole."[1/] The District Commissioner in Soroti put it quite simply, "We cannot distribute poverty." Nation building, political, social and economic, is the means for addressing the most pressing poverty problems in Uganda today.

1/ Patrick Fleuret, "Draft Background Paper. Community-Level Conditions and Development Assistance Needs in Uganda," (Mimeo) February 2, 1980.

B. THE STATE OF THE ECONOMY AND THE CAUSES OF POVERTY

Following the 1979 war which ousted Amin, the Ugandans asked the Commonwealth Secretariat to send in a team to assess Uganda's rehabilitation need. The lead sentence of that report stated, "The Government of the National Liberation Movement inherited a country in ruins." 1/ The report then goes on to state that, while there was widespread destruction as a result of war and looting, it would be an exaggeration to apply the statement to physical damage but that it was an accurate description of economic and social conditions. Unfortunately, over the next two years as the Ugandans struggled to establish political stability, the economic and social conditions continued to decline. In this section we shall examine first the macroeconomic situation and what Government has done to cope with the situation and then review the current status of major components of the economic system whose functions determine how effective recovery and development programs will be.

1. Macroeconomic Situation

By mid-1981 the economic situation in Uganda was about as bad as it could be short of total collapse. During the period from 1972 to 1978 Gross Domestic Product declined at a rate of 1 percent per year and then in 1979 and 1980 it accelerated

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1/ Dudley Sears, et al, "The Rehabilitation of the Economy of Uganda," Commonwealth Secretariat, Marlborough House, London, SW 1, June 1979, p. 1.

to decline about 9 percent in each year, a decline over eight years of some 25 percent. At the same time, inflation during the 1972 to 1978 period averaged about 50 percent and then following the war accelerated to over 200 percent in 1979 and then declined somewhat in 1980. The table below shows the effect of inflation on the cost of living in Kampala.

TABLE 2

COST OF LIVING INDICES

(January, 1960 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
High Income	158	177	241	280	365	508	658	N/A	N/A
Middle Income	145	174	241	249	249	289	409		
Low Income	164	204	341	410	601	1,133	1,546	4,894	5,474

Source: Background to the Budget, 1981-1982, Ministry of Finance, Kampala, Uganda, June 1981.

The World Bank estimates that during the period 1972 to 1978 per capita income declined by approximately 25 percent. 1/

During this same period the modern sector--monetary agriculture, industry, mining and construction--declined sharply, investment dwindled and the structure of the economy was sharply altered as subsistence agricultural production increased. The table below shows what happened to selected industrial and agricultural production.

1/ Report and Recommendations of the President of the International Development Association to the Executive Director on a Proposed Reconstruction Credit to the Republic of Uganda. The World Bank, January 29, 1980.

TABLE 3

PRODUCTION OF SELECTED AGRICULTURAL AND INDUSTRIAL COMMODITIES

	Unit	Production			
		Peak	Years	Latest	Years
Monetary Agriculture					
Coffee	1,000 Metric Tons	251	(1969)	120	(1978/79)
Cotton	"	79	(1972/73)	15	"
Tea	"	23	(1971/72)	11	"
Sugar	"	141	(1970/71)	8	"
Tobacco	"	5	(1972/73)	2	"
Manufacturing		Average 1971-73		Latest Year	
Consumer Goods					
Vegetable Oil	1,000 Metric Tons	14		1	(1978)
Cotton Cloth	Million Sq. Meters	44		25	"
Blankets	Million Pieces	1,154		595	"
Soap	000 Metric Tons	11		1	"
Industrial Goods					
Steel Ingots	000 Metric Tons	21		3	(1978)
Corregated Iron Sheets	"	11		2	"
Cement	"	171		50	"
Hoes	Million Pieces	1		--	"

The decline in production in the modern sector is attributable to Amin's economic policies, political favoritism and repression. Foreign owned and other privately owned businesses were nationalized. The large Asian community which was heavily involved at the managerial and technical level in industry, commerce and plantation agriculture was expelled from the country and large numbers of trained, competent Ugandans left as political repression spread and inflation increased. Once efficiently operated modern businesses of all kinds were turned over to Amin's favorites who lacked any managerial or technical competence to run them. They were promptly run into the ground. The parastatals continually operated at a loss and quickly ran up large unsupportable debts as bank credit was made fully available without regard to credit worthiness. To make matters worse price controls were established on the products of these parastatals and unprofitable operations deteriorated towards disaster.

Monetary and fiscal affairs deteriorated in the same fashion as did the modern sector of the economy. During the period from 1972 to the conclusion of the war in 1979, Government budget deficits exceeded a billion shillings a year in every year but one, 1977/78, when increased coffee revenues resulting from world market price increases held the deficit to under one-half billion shillings. During the Amin years the deficit was at least 50 percent of current revenues and in certain years reached as high as 71 and 95 percent. This debt

was largely financed by internal borrowing. Of the total Government debt of 8,440 million shillings that was accumulated over the period 1973/74 to 1978/79, 15 percent was financed from external sources and the remainder was financed by internal borrowing. The table below shows the monetary expansion which occurred as a result of financing the Government debt largely by recourse to the banking system.

TABLE 4

INDICATIONS OF MONETARY EXPANSION AND THE ROLE OF THE BANK OF UGANDA 1970-79

	Dec. 1970	Dec. 1974	Mar. 1979
Government borrowing from the banking system as % of total domestic credit outstanding	39	65	72
Government borrowing from Bank of Uganda as % of total government borrowing from banking system	59	58	78
Government borrowing from Bank of Uganda as % of total domestic credit outstanding	23	37	56
Money supply (as % of December 1970)	100	272	707
Government borrowing from Bank of Uganda (as % of December 1970)	100	497	1921

Source: Dudley Sears, et al, "The Rehabilitation of the Economy of Uganda," Vol. II.

This orgy of financial indiscipline culminated in the last part of 1978 and the first quarter of 1979 when Government employed credit from the Bank of Uganda to finance its requirements to a wholly unprecedented degree. In the last half of 1978, Government borrowing from the Central Bank increased by 30 percent (by UShs 1 billion); in the first quarter of 1979 it rose by another 45 percent (another UShs 2 billion). From mid-1978 until the end of March, 1979, Government borrowing from the Central Bank accounted for 87 percent of the total expansion in domestic credit over the period. The money supply in March, 1979 exceeded that of a year previously by 35 percent.[1/] The budget deficit continued to increase during 1980. The budget deficit was 63 percent of total expenditure largely as a result of increased expenditures. It was financed mostly by recourse to the Central Bank. Reflecting these developments, total domestic credit increased by 53 percent; net credit to the Government rose by 63 percent and credit to the private sector (including public enterprises) by 32 percent. Broad money rose by nearly 28 percent.

The deterioration in Uganda's external monetary situation was similar to that experienced by the domestic money system. For the six years 1973 to 1978, Uganda ran a balance of

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1/ Dudley Sears, et al, op. cit. p. 273

payments surplus in only one year, 1977, when the rise in world coffee prices increased receipts from merchandise exports by 64 percent. The table below shows in brief outline the balance of payments situation in Uganda.

TABLE 5

UGANDA BALANCE OF PAYMENTS 1972 - 1980

(Shillings-Millions)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
A. Goods & Services	158	313	-163	-509	378	585	-982	110	2037
Trade Balance	473	515	160	-187	719	1045	-224	561	-1370
Exports	1884	1932	2101	1758	2708	4528	2484	2966	2368
Imports	-1441	-1416	-1941	-1945	-1989	-3483	-2708	-2405	-3739
Service (Net)	-315	-203	-324	-322	-341	-460	-758	-451	-667
B. Unregulated Transfers (Net)	-2	-9	-9	-93	18	-22	-23	93	377
C. Current Account	116	304	-172	-416	396	563	1005	203	1660
D. Capital Account Private (Net)	-279	-265	-187	146	-351	-347	716	-932	312
E. Capital Account Official (Net)	148	-58	99	64	-57	-47	-159	-155	-182
F. SDR Allocation	32	--	--	--	--	--	--	--	--
G. Overall Balance	17	-19	-260	-206	-12	169	-448	-834	-1481

Source: Background to the Budget 1981-1982, Ministry of Finance June 1981

The World Bank estimates that between 1971 and 1978 both exports and imports decreased in excess of 55 percent in real terms. From 1972 to 1978 the balance of payments deficit totaled about $100 million with nearly 60 percent of this amount accumulating in 1978. By the end of 1978 Uganda's foreign exchange reserves were down to a two month supply and arrears continued to climb reaching about $95 million by the end of 1978, with a little over two-thirds of that amount being recorded in 1978. With the onset of the war in 1979 and the subsequent turbulence and lack of Government action to address economic problems in 1980, the deterioration of the balance of payments accelerated. The balance of payments deficit in 1979 reached about $140 million due mostly to capital account losses and arrears were in the neighborhood of $70 million. In 1980 the overall balance of payments deficit reached a staggering total of approximately $195 million due mostly to a 20 percent decline in the value of exports and a 55 percent increase in imports which was largely caused by a substantial increase in petroleum imports. Arrears continued to climb reaching a level of nearly $170 million or more than 50 percent of the value of exports. Despite the high inflation and deteriorating balance of payments situation, the exchange rate was not adjusted between 1975 and 1980. The shilling became greatly overvalued and by 1980 the parallel rate was between 10 and 15 times as great as the official rate.

2. Government's Response

Following the end of hostilities the newly established government, Uganda National Liberation Front, turned to the international community for assistance. The Commonwealth Secretariat provided a team of experts to assess requirements for rehabilitating the economy. The World Bank (IDA) and the International Monetary Fund provided the major funds in response to Uganda's appeal for assistance with smaller amounts being supplied by bilateral donors. In January 1980, the IMF provided support consisting of a first credit tranche drawing equal to $15 million and a Trust Fund loan equal to $26.75 million. At the same time Uganda purchased SDR equal to $30 million under the compensatory financing facility. In early 1980, an IDA credit of $72.5 million, of which $17.5 million was provided under a participation arrangement with the Netherlands Government, was approved for Uganda. The IDA credit was supplemented by a Special Action Credit from the EEC of about $20 million and a grant of 3 million Canadian dollars, both of which were to be administered by IDA. Total value of the package was about $95 million and it was to be disbursed in two tranches of $55 and $40 million. Actually only the first tranche was released and only $25 million of the first tranche was expended because of policy disagreements between the Bank and the Government.

Divisiveness within the coalition which made up the Uganda National Liberation Front prevented that body from making essential decisions on economic policy. As a result the economy continued to deteriorate. Elections were held in December 1980, and the new government shortly came into power. Following consultations with the IMF, Government decided to launch a comprehensive economic reform to correct the economic and financial situation. As a first step, on May 1, 1981, following a request for a standby arrangement with the IMF submitted on April 24, 1981, the Government raised petroleum prices substantially--gasoline by 260 percent and diesel by 200 percent, and producer prices for the main export crops, coffee and cotton, were raised 186 and 150 percent respectively.

The President of Uganda in his budget speech to Parliament on June 1, 1981, announced a major series of economic reforms. Tea prices were increased from UShs 1.35 to UShs 4.00 per kilo, and tobacco prices were increased by 150 percent. The major monetary and fiscal reforms announced were: 1) floating of the shilling but with the retention of licensing of imports and other allocations of foreign exchange in accordance with national priorities; 2) the abolition of all administered prices except that minimum prices would be guaranteed for major export crops and petroleum prices and public utility rates would be set by Government but periodically changed; 3) within the budget,

expenditures on imported items would be valued in accordance with the exchange rate, domestic procurement would be valued at the free market rate and government wages and the minimum wage bill would be raised, and on the revenue side increases in revenue would result from an increase in the tax base as the black market disappeared, sales taxes, import duties and export taxes were applied at ad valorem rates to higher market prices and improvements were made in tax administration. Other reforms included increasing the Bank of Uganda cash reserve ratio by 50 percent to reduce liquidity, reduction of recourse to the banking system for financing government deficit and relying more on sales of Treasury Bills and stocks and bonds to the public, increasing minimum savings rates on time deposits and limiting the expansion of domestic credit.

Under the standby arrangement with the IMF, Uganda was given the right to purchase from the Fund SDR 112.5 million (equal to approximately $139 million) between June 5, 1981 and June 30, 1982.

Following conclusion of the standby agreement, further consultations were held between Government and the IMF and four IMF experts were assigned to the Central Bank of Uganda to work in bank supervision, economic research and foreign exchange management. Since June of 1981 some additional adjustments in economic policies have been made and some initial improvements in the functioning of the economic system have been noted.

At the time of depreciation, the Uganda shilling floated from 7.8 to the dollar to 78 to the dollar. Since that time it has further depreciated to UShs 86 to the dollar. However because the foreign exchange available has not been sufficient to satisfy demand, import licenses continue to be used to ration availabilities. Coffee prices which earlier had been tripled were increased by 75 percent in October, tea prices were increased by 50 percent, cotton prices doubled and tobacco prices raised by 150 percent. The sharp increases in coffee prices are already having a noticeable affect. Between May and August, coffee shipments to Mombasa quadrupled, and by January 1982 deliveries of coffee to cooperative processing plants in the Mt. Elgon area, where smuggling had been greatest, were far outdistancing the cooperative's ability to process the coffee. Uganda has had its coffee quota increased by 52 percent for the current coffee year and expectations are that deliveries by farmers to the cooperative will exceed the quota amount. There is some evidence that tea growers are beginning to increase deliveries though production and marketing problems to be overcome are much greater than in the case of coffee. Cotton production has not yet had a chance to respond to higher prices but the indications are that farmers plan to increase cotton plantings this year.

Prices of gasoline were raised again in October and premium gas now costs $4 per gallon. The increase in petroleum

product prices has increased Treasury revenues and decreased smuggling of petroleum has led to a better allocation of supplies, particularly to meet up-country requirements.

The freeing of most prices has resulted in a sharp increase in ex-factory prices to reflect actual cost. At the retail level prices jumped immediately but have recently fallen slightly. Sugar, rice and salt have fallen below the prices existing at the time prices were freed and beer which went to 300 shillings a bottle has now declined to 250 shillings a bottle.

The overall increase in government wages which had been set at 25 percent was allocated on a graduated scale so that the minimum wage was raised 50 percent while the wages of the highest paid civil servants were raised only 8 percent.

Government has been forced to exceed planned domestic credit levels largely because the government valued payment of public debt abroad at the new rather than at the old exchange rate as had been anticipated. Revenue has been less than expected because world coffee prices were about one-third lower than expected; but most of this loss has been offset by an increase in foreign grants. Tax receipts have increased in line with expectations set forth in the President's budget speech.

Foreign exchange problems continue to require attention. As noted earlier, earnings from coffee exports were less

than anticipated because of lower unit prices, and repayment on arrears have been higher than anticipated. To cope with this situation a system for allocating foreign exchange among various ministries leaving an appropriate amount for the private sector has been established. Uganda public debt has been rescheduled and the Government is actively seeking additional balance of payments support from the donor community.

Finally, demands for credit by the industrial sector increased appreciably following the initiation of economic reforms. Some banks shifted from a position of excess liquidity to tightness. To make additional credit available, Government raised interest rates to depositors.

Ministry of Finance staff consider that progress made so far under the economic reform program has been encouraging. This does not mean that Uganda is by any means out of the woods. The IMF is continuing to provide technical assistance on economic matters to the Government and as this document is being written an IMF team is in country working with the Government on additional policy and institutional reforms which will increase the possibility for success of Uganda's bold economic reforms.

3. Major Components of the Economic System

Uganda's current economic problems are not limited to economic policies. The economic system itself is disabled. The ultimate effectiveness of the economic reforms depends in large part on the rehabilitation and restructuring of the system and its component parts. In this section we shall briefly examine the major components of the economic system: the labor force, industry, private sector and parastatals, institutions and agriculture.

a. Labor Force. The labor force in the non-farm formal sector is characterized by a very low level of productivity. There are several causes. First, the wage level in the urban formal sector, in government and private employment, has fallen substantially behind the price level of consumer goods over the past ten years. As noted earlier, the result of this is that people devote a considerable portion of the time they are supposed to be on the job in non-job related efforts to supplement their wages. This means participation in some way in the non-formal sector of the economy. If the urban worker is fortunate enough to have access to land, he/she will certainly engage in subsistence agriculture and perhaps even sell part of the farm product. People at all levels engage in this kind of activity. For example, a professor at Makerere University, who is a former high official in the government, has a small plot of land not far from the University on which he raises plantains and keeps three cows.

Each day he journeys to the small farm, milks the cows and then retails the milk. He also sells on the market any plantains produced which are surplus to subsistence needs. It is not unusual for people to devote more than half of their working hours to pursuits not related to the job in the formal sector for which they are receiving a salary. It is not a matter of avarice; it is a matter of survival. Second, the supplies or equipment essential to accomplishing the work for which one is being paid are often not available. The school teacher has no books or paper or pencils, the biologist no microscope or chemicals, the extension worker no means of transport or the clerk no adding machine. Even with the best will, the means are simply not at hand to make it possible for one to carry out assigned tasks. Third, there is an absence of adequate supervision and direction of the labor force either because the supervisor is largely engaged in non-job related activities or because the equipment necessary for adequate supervision is not available. For example, the District Agricultural Officer does have transport so he cannot travel to oversee the activities of his extension agents. Fourth, in professional or technical fields, people have simply not been able to keep up with developments in their fields of speciality because of the isolation from the rest of the world imposed by the Amin regime. Therefore they perform

at a lower technical or professional level than would normally be expected. Finally, in the urban formal sector, particularly government workers, morale is extremely low with consequent deleterious effects on worker output. Employees simply do not perceive that anyone is interested in their doing a good job or, if they do a good job, that it will benefit either society as a whole or themselves. They believe they are forced to function in a hostile economic and social environment and that successful achievement of formal work objectives will not help them to cope with the situation.

Clearly, neither economic recovery nor development can be achieved if acceptable levels of productivity are not forthcoming from the modern, urban sector. Yet, there are several constraints on government in dealing satisfactorily with the major problem of low wages in relation to consumer prices. In the first instance, it is difficult to justify wage increases when productivity is low. But, beyond that, in the urban formal sector, government is the major employer and sets the wage pattern for the formal economy. Unfortunately, achievement of objectives of the economic reforms, particularly reducing inflation, is partially dependent on limiting government expenditures and this severely limits the ability of government to raise wages. Immediately after the war, government salaries were increased for the first time since 1976. The increases

ranged from 20 percent for the highest paid government workers to 150 percent for the lowest. Wages were again increased in the second half of 1981 as a part of the IMF approved economic reforms. An overall increase of 25 percent in the government wage bill was approved. Again, wage increases were structured to favor the lowest paid workers. The minimum wage was increased 50 percent while the highest paid civil servants received an increase of only 8 percent. Currently government has established a commission to examine the wage problem but, obviously, their options are limited.

While there are few opportunities for doing anything about wages, at least in the public sector, it is possible to do something about the other side of the wage/consumer price equation. Consumer prices for both domestically produced and imported consumer goods are high, partially because supplies have been extremely limited. A bar of soap in Kampala can cost up to ten times as much as it does on the Kenya market largely because of the scarcity of soap in the Kampala market. The same has been true for a wide range of agricultural and industrial products. Increasing production will act to depress consumer prices in two ways. First, increasing the flow of agricultural products and domestically manufactured goods into the domestic market will (in fact, it is already starting to) reduce the cost

of foodstuffs and manufactured products such as cotton cloth and soap. Second, increasing agricultural exports will generate the foreign exchange necessary to increase imports of consumer goods and critical inputs needed to revive domestic manufacturing. In this way, it will be possible to increase the real wages of workers even if nominal wages are not increased.

Government can and is starting to do something about the non-wage causes of low productivity though foreign exchange scarcity does limit to some degree what can be done. Within these limits an effort is being made to replace equipment and supplies that were in one way or another destroyed or stolen over the past decade. The office furniture and equipment, transport units, paper supplies and other expendables which simply have been unavailable are beginning to arrive in country. While complete refurbishing and resupply will certainly take two or more years, some positive effect on productivity can be discerned. To deal with the problems of inadequate supervision and direction, the government has initiated a series of seminars through the Institute of Public Administration on improving planning and supervision for government supervisors. The first seminar at the ministerial and permanent secretary level has been held and additional seminars for senior supervisory government employees have been scheduled. Again relying to

a large extent on foreign assistance, professional and technical personnel are beginning to re-establish communication with the outside world. This includes such things as attending international professional association meetings and short and longer term study abroad. Unfortunately, the surface has hardly been scratched but a start has been made. Finally, certain actions have been taken which are having a positive effect on morale. These include such things as starting up a promotion system which had not been functioning for years and granting allowances for travel to conform more closely to current costs.

b. Industry. By the time that the war was started, industry, including cooperatives processing agricultural products, was in pretty much of shambles. The following nearly two years of war, looting and indecision merely exacerbated an already desperate situation.

Prior to the Amin coup the government had initiated action to acquire full or majority ownership of a large number of private industries. Additionally, the monopoly powers of such entities as the Lint Marketing Board and the Coffee Marketing Board had been greatly expanded. When Amin came to power he initially reversed this process and returned some enterprises to their original owners. However, with the initiation of the "economic war" enterprises belonging to expelled Asians were

largely expropriated and converted to parastatals though a few were handed over to Amin's cronies. This was followed by expropriation of other private firms and, when the East African Community broke up, the establishment of parastatals to handle such services as railways, airlines, etc. Based on the best available information, by the time the Liberation War was launched there were at least 126 parastatals operating in Uganda. Of these there were 7 financial institutions, 106 commercial organizations, 3 service institutions, 5 marketing boards and 5 semi-government departments.

The result of the "economic war," mismanagement of the finance and banking system and destruction caused by the War of Liberation, looting and following malaise has turned Uganda from a country which in 1970 was able to produce enough to meet a substantial part of demand for consumer goods and export a significant portion of industrial output to a country almost totally dependent on imports of manufactured goods. By 1978 production by all industries except cigarette manufacturing had declined substantially from levels reached in 1970. For example, the following decreases in output occurred: fabrics 44%, blankets 86%, matches 84%, plywood 83%, beer 22% and paint 65%. Along with the decline in quantity of output came a significant decline in quality. Furthermore, there was a substantial decapitalization

of industrial plant, the growth of substantial debt by many companies and the closing of many firms. Administered prices set at unrealistically low levels which would have precluded profitable operations at or near capacity output led to disastrous losses at greatly reduced levels of output.

In addition to the inadequate price structure other causes of the decline of industry were mismanagement and low levels of technical skills in general caused by the departure of competent Asians and Ugandans, a decline in the quantity of agricultural products used as raw materials by industry, increased labor costs caused by inflation and, finally, the lack of foreign exchange to procure replacement equipment, parts and imported raw materials. The effect of foreign exchange shortages became increasingly important over time and during the period 1978 to 1980 became the predominant cause of industrial decline as decapitalization accelerated. From 1972 to 1977 manufacturing output fell by 21 percent and from 1977 to 1980 it declined an additional 51 percent. In 1980 manufacturing output was just 39 percent of 1972 output.

In 1981 the new government initiated steps to rehabilitate industry. Prices of industrial products were decontrolled and the allocation system abolished. The government has commenced a policy of greater reliance on the private sector. In carrying out this policy the government intends to return to

the private sector wholly or in part manufacturing industries. This includes inviting expelled Asians to return to Uganda and take up whole or partial ownership of the businesses expropriated during the "economic war". The two major Asian entrepreneurs, the Madhvanis and the Mehtas have returned to become partners with the government in operating their industrial and agricultural plant. Other Asians are returning but there is some evidence that the number of Asians returning to reclaim their businesses will be less than anticipated. The government also intends to sell some businesses to Ugandans and has announced a policy of welcoming foreign private investors. In cooperation with the IMF the government has instituted a foreign exchange allocation system which sets aside a minimum amount for allotment to the private sector. Finally, the government has entered into agreements with international and bilateral donors under which vitally needed imports of machinery, spare parts and raw materials are being supplied to manufacturing establishments. A satisfactory start has been made in rehabilitating the industrial sector. However, large increases in foreign and domestic inputs are still required. If satisfactory levels of resource flow to the sector can be reached and maintained, the IMF estimates that most factories could be operating at satisfactory levels of output by the end of 1983.

c. Private Sector and Parastatals. Before Independence Uganda's private sector could be characterized in four categories. Each category of business tended to be associated with racial and sometimes ethnic ownership which, in turn, reflected access to business knowledge, credit and consequently scale of business enterprise. The smallest category of private operations was local roadside markets operated entirely by Africans. These simple operations were supplied mainly by local farmers to a family member who had decided to trade or by very small local dealers. Within district towns and cities there were considerable changes in the operation of these markets. Foodstuff was considerably higher priced. Speciality services such as hardware, bicycle repair, outdoor garages, and barber shops would be available along with significantly more imported items than seen in the small roadside markets. These larger markets for the most part also were operated by Africans but on the periphery there were usually Asian merchants who served as wholesalers. Floating private services also existed, the sellers of which moved as business opportunities directed.

A second category of private business that developed in Uganda was small farm operators and small shopkeepers. Such farmers spread across the country on 4-5 acre farms and are by far the largest group of private operators.

Approximately 70 percent of Uganda's population fit into this category.

A third category of private business that has been common in Uganda is the service trade. This consists of taxis, hotels, cinemas, bars, restaurants and similar establishments. Prior to 1971 most of these businesses except taxis were under the control of Asians.

The fourth and most important category of private business was medium to large scale farms. Banks, insurance companies, assembly and processing plants, manufacturing, export-import firms, transport, large farms, estates and plantations all were in this category. Before independence such firms were foreign owned or managed or functioned as government parastatals including cooperatives.

Thus in terms of private business, Ugandans, except for government parastatals, have confined themselves to very small private businesses. This has significant implications for the emphasis on private enterprise now being proposed by the government.

After independence in 1962 and through 1970 a number of larger firms were nationalized and converted to parastatals. This process accelerated in 1972 when Asians were expelled and government parastatals took over management of many

additional businesses. By the time of liberation the economic activity carried out by parastatal agencies was more extensive than any other country not formally recognized as having a "centrally organized" economy.

Because of the poor performance of government parastatals and businesses allocated under Amin and because of limited government capacity to manage them, there is considerable discussion and indeed some enthusiasm about increasing reliance on private enterprise as a main feature of the government's on-going reform policy. Government initiatives to reactivate the private sector have been taken through a number of measures. Elimination of the allocation system has put the private sector on a competitive basis with government enterprises in securing needed inputs. Abolition of the Ministry of Supplies has furthered this objective. Elimination of administered prices has enabled the private sector to operate in response to market forces. Floating of the shilling ensures that the public and private sectors compete for limited hard currency at the same rate of exchange. More importantly, there is a growing recognition of the benefits that freeing up the private sector will have for Uganda and a movement away from the earlier automatic propensity to turn toward parastatals to help solve the country's economic problems. This is manifested most prominently in the government's decision to divest itself of some of the inefficient parastatals it has accumulated. To make this

effort succeed urgent action must be taken to prepare Ugandans in these efforts.

The Government will have to determine just how many parastatals actually exist and from whom the assets were taken initially. Many businesses that were taken over by the Government were simply run into the ground and later looted during liberation. Many may exist only on paper. Training of accountants and financial analysts is needed for this task.

The Government will have to establish procedures for the orderly transfer of parastatals and govenment enterprises to the private sector. In the current depressed conditions most parastatals would be sold for only a fraction of their value. Assets must be appraised and reasonable prices established, particularly if the government plans to compensate the former owners. Reorganization of capital assets and their division between public and private owners may be a particularly thorny problem.

Implementation of policies to divest the government of many of its enterprises will be difficult. While many officials in these enterprises could earn more in profitable operations, many employees, particularly those in overstaffed companies, would be threatened. Also, many government employees who are responsible for parastatal operations

will not be enthusiastic about losing their charges, and perhaps the only raison d'etre for their jobs. Also the Government may encounter political problems in turning parastatals over to the private sector. Government enterprises are a major absorber of political patronage. Since these enterprises normally are not subject to civil service regulations, they can pay higher salaries and enjoy greater flexibility in terms of job perquisites and benefits. Appointment to parastatal positions is valued highly.

Since it appears that few of the Asians and other entrepreneurs will return in large numbers, Uganda will have to initiate a business class in its midst especially for the larger operations. This process must start on the ground floor. In Uganda and elsewhere in Africa few local citizens have moved beyond small businesses, those that require the most simple business accumen. Thus training and experience are prerequisites for operating the private firms that count most. There are other urgent requirements.

In addition to training and experience small and large businessmen in Uganda would require access to local credit and indirectly to foreign exchange for materials, new equipment, and the replenishment of spare parts. Thus private banks as well as public financial enterprises would have to alter their present practices if the business community is to be properly served.

One function of parastatals such as marketing boards was to provide government revenue. This requirement was one reason why producer prices were invariably low. If private firms multiply at the expense of parastatals, provision of government revenue would have to be rationalized and incorporated under an equitable tax system, one where business incentive is not impaired.

Many of the Ugandan parastatals are located in the agricultural sector as are a number of the existing private enterprises. Furthermore, as the country's agricultural production begins to grow the potential for profitable operations of U.S. investors and manufacturers will be increased significantly. Helping develop the country's private sector and redefine the role of the parastatal enterprises in the economy would fully complement AID's strategy of promoting increased agricultural productivity. However, unless early results from the government's current inclination to develop the private sector are forthcoming, its attitude could change. AID thus has a unique opportunity to help demonstrate the benefits of the government's policy directions. The government's plans for the private sector are still inchoate, and we could have a substantial impact through immediate action given the high regard the Ugandans hold for the expertise available through the U.S. private sector.

d. Institutions. The institutional structure, broadly conceived, which facilitated the functioning of the Uganda economy was badly eroded during the 1972-80 period. This includes such things as the marketing system, transportation and communication systems, financial institutions, educational systems, extension networks, health systems, research and law and order. The full details of this institutional collapse cannot be spelled out in a document of this nature. Interested readers can pursue this subject by reading Volume Two of a report by a Commonwealth team of experts entitled "The Rehabilitation of the Economy of Uganda."

There were a variety of reasons for the deterioration of the component parts of the institutional system. Perhaps foremost was the policy which established the army as the most important institution in the country to which all others were subordinate. For example, the police force was reduced and the maintenance of internal law and order became the responsibility of the military. This meant that people and institutions were subject to military justice which was often administered by unlettered and unruly military personnel. The decline of institutions was also caused by human and physical decapitalization. During the Amin period many of the educated persons who survived found it impossible to remain in the country or they returned to the "bush." The trained capable people necessary for adequate functioning of institutions became increasingly

scarce. Additionally, because people were effectively cut off from the rest of the world, they were unable to maintain and increase their levels of competence. For example, from 1972 until after the war, educational and scientific institutions at all levels were unable to receive books or publications in their fields of speciality. A tour of libraries, classrooms and laboratores in Uganda would lead one to conclude that sometime in the very early 1970s the printing presses of the world had ceased to function. Similarly, almost no professional Ugandans were permitted to travel outside the country to engage in the exchanges with professional colleagues which are essential to the maintenance and expansion of professional competence. With respect to physical capital, the decline was steady throughout the Amin years as structures, machinery, equipment and supplies wore out and were not replaced. The Experimental Farm of the Makerere University Faculty of Agriculture had 29 operating tractors in 1972. By 1977 not one remained; the final part that could not be replaced by cannibalization wore out in that year.

During the war and the following looting, much of the remaining physical capital was destroyed. Almost anything that could be removed--even such things as doors and light switches--were removed and much of what could not be looted was destroyed. Following the war, the deterioration of much of

the remaining physical capital of institutions accelerated. However, there was some increase in institutional human capital as expatriate Ugandans returned home and professional contacts began to be reestablished.

Policies and goals of the government from 1972 to 1979 were irrational when viewed from the perspective of maintaining and expanding a functioning economy and they caused distortions and degradations of financial institutions. The financial system was seriously damaged as the government resorted to Central Bank financing of ever-increasing deficits. Inflation became rampant and larger and larger deficits were incurred which inexorably led to further debasement of the currency. External debt mounted which was increasingly financed by arrears as more and more resources were devoted to the acquisition of more and more military equipment. In the last full year of Amin's rule arrears reached UShs 559 million and in the war year and following year of uncertainty they totaled UShs 537 million and UShs 1.5 billion respectively. Additionally, as industrial output declined and the ownership and management of enterprises was constantly shifted, the government forced commercial lending institutions to loan finance operating losses. These loans could not meet conventional tests of creditworthiness. By May 1980, it was estimated that UShs 700 million of total commercial bank claims on nongovernmental entities of

UShs 3 billion were uncollectable. The government controlled portion of the financial community was nearly in ruins with little prospect of repayment of forced loans to parastatals, cooperatives and individuals. In short, these commercial banks were no longer able to carry out their normal functions.

The marketing structure that existed in 1972 was virtually destroyed. Before the "economic war" most of the retail and wholesale marketing, except for the specialized marketing done by the cooperatives and local produce marketing, was operated by Asians. With the expulsion of the Asians this system was nearly destroyed as only over time were Ugandans able to learn merchandising skills. However, even as Ugandans were developing their skills, the severely limited foreign exchange availabilities and the highly unrealistic price controls and allocation system for manufactured consumer goods led to nearly total destruction of the normal marketing system. It was replaced by a black market system in which the favored few who received allocations of goods resold them at high prices and reaped enormous profits.

One of the encouraging recent developments in Uganda has been the resurgence of the wholesale and retail marketing systems following the removal of controls by the new government during 1981. While prices rose dramatically following the removal of controls and devaluation, the system is beginning to function effectively and prices are now starting a modest decline.

In addition to incurring the same kinds of human and physical capital losses as other institutions, the structure of the transportation and communication system was irretrievably altered and diminished by the breakup of the East African Community during the mid-1970s. As the only inland country in the three nation East African Community, Uganda was particularly dependent on the Community railway, rivers and harbors and post and telecommunication system. It was the "Lunatic Express" constructed to transport Uganda produce to the sea that formed the base of East African Railways Corporation. The jointly owned railway provided Uganda with an efficient, relatively inexpensive route to the sea financed entirely with local currency. With the disintegration of the Community all of this disappeared. Uganda was able to obtain only a small share of the rolling stock and it became dependent on Kenya making available heavy duty engines and goods wagons for transport between Mombasa port and the Uganda border. Additionally, Uganda had to pay for transport through Kenya with scarce foreign exchange. Kenya limited the number of trains made available to Uganda and this exacerbated the situation by forcing Uganda to rely on Kenya-owned trucks belonging to important Kenya politicians for transport of imports and exports. This meant that freight rates increased substantially and the drain on foreign exchange increased. Additionally, the switch to the use of heavy duty trucks increased the wear and tear on

Uganda roads which were being badly maintained. This situation continues at the present time and constitutes a serious impediment to Uganda's development. In a similar way the end of the East African Rivers and Harbors, Post and Telegraph and Airlines meant that Uganda incurred large losses of capital and increased foreign exchange costs.

At the same time, Uganda's road transport system was beginning to disintegrate. Increased use of roads for heavy transport, the lack of technical personnel, the lack of equipment and spare parts for vehicles and road maintenance and, finally, losses to the war and looting all took their toll. The excellent maintenance system shared by the Ministry of Works and local communities for primary and secondary roads has virtually ceased to function. The reconstitution of the internal road transportation system will require heavy capital investment in construction and vehicle procurement as well as the reconstitution of maintenance capability.

e. Agriculture. Although the agricultural production and marketing system, like the rest of the economy, was severely damaged by the ravages of the Amin regime and subsequent events, it is clear that small-holder agriculture made possible the survival of Uganda. Throughout the period 1972-1980 small-holder agriculture continued to provide the basic foodstuffs necessary to sustain the population and small-holder coffee production continued to provide a diminishing but essential stream of foreign exchange earnings.

Uganda's agriculture is similar to agriculture in most of Africa in that it is, for the most part, characterized by relatively simple technological inputs and multiple products. It is also similar in that it provides the income of the vast majority of the people. It differs from agriculture in most of the rest of Africa in two respects. It has generally good soils and a reasonably reliable rainfall pattern over much of the country that enables farmers to confidently count on two annual crops or more per year. It has also provided the basis for most non-farm employment in the country through the development of an extensive cooperative marketing and processing system and by providing the basic inputs to and market for a small but vigorous industrial sector. Uganda's agriculture has also been the source of the country's foreign exchange earnings through the export of agricultural products or goods manufactured from agricultural products. Revival of a dynamic agricultural production and marketing system is critical to recovery and development of the Uganda economy.

Ugandan small-holder agriculture can be characterized as largely subsistence agriculture because most of the food consumed by farm families is grown on the farm. However, if production reaches planned levels some of almost all crops or livestock products produced on the farm are sold and some food is purchased. Most farmers also produce at least one crop

which is not consumed on the farm but marketed to produce cash income. Thus small-holder agriculture is best characterized as a market oriented agriculture with a large subsistence element.

While only a small portion of Uganda's agriculture is produced on medium or large farms, this segment of agriculture is not unimportant. In contrast to small scale agriculture it focuses on production of a single product and utilizes more sophisticated technology. Its products are sugar, tea, livestock and livestock products.

Over the period from 1972 to 1980, abstracting from the vagaries of weather, total agriculture production did not decline. However, there was a definite shift in the composition of agricultural output. The output of farm products which required more sophisticated inputs or required some processing by the marketing system declined by about one-quarter while the output of those products which could be produced with minimum inputs and low technology and could be marketed directly without much processing increased. In essence this meant that the output of crops intended for export and/or the output of medium and large scale agriculture declined and the output of food by small scale agriculture increased slightly.

The agricultural products for which output declined significantly were sugar, tea, tobacco, cotton and quality livestock products such as beef, milk, pork, chicken

and eggs. The production of coffee probably declined somewhat but the decrease in recorded coffee marketing was probably largely caused by smuggling and coffee growers holding their product off the market. The cause of the decline in production and marketing included inappropriate pricing policies, inability of the cooperatives to pay cash for products delivered by farmers, unavailability of farm inputs, the breakdown of processing facilities due to the lack of spares and inadequate managerial and technical skills, the deterioration of the institutional support system for agriculture including the transport system and the decline in the agricultural labor force as wage increases failed to keep pace with price increases. All of this was exacerbated by the destruction caused by the war and subsequent looting. Meanwhile the output of domestically consumed foodstuffs increased as population increased, urban workers were forced to rely on subsistence agriculture to supplement wages and the prices of food products increased relative to other agricultural products.

During 1981, the new government has undertaken certain actions to stimulate agricultural production. The major action has been to increase prices for coffee, tea, cotton and tobacco. Between May and October 1981, coffee and cotton prices were increased fivefold, tea prices by more than a factor of four and tobacco prices were increased by nearly 500 percent.

Donor assistance to increase the availability of agricultural inputs has been obtained, the sugar industry has been reorganized, cotton seeds are being made available to farmers, transport is being improved and efforts are underway to assure cooperatives have cash resources to pay for farm products on delivery or shortly thereafter.

These efforts are beginning to show some results. Uganda is once again marketing some tea through the Mombasa auction and deliveries of coffee to cooperatives by farmers is increasing. There are indications that cotton farmers are planning to increase plantings if inputs such as hoes, plows and seeds are available and if they are convinced the cooperatives will pay cash for cotton delivered. Most importantly, there is evidence that production and marketing of all kinds of crops by small farm enterprise are increasing with a consequent favorable effect on consumer prices.

Much remains to be done if agriculture is going to recover to its former level as an earner of foreign exchange and supplier of inputs to industry and then begin to play its proper role in the development process. Input supplies of all kinds for agricultural production, marketing and processing must be increased to rebuild and maintain capital equipment and assure an adequate flow of operating supplies and the agricultural support system including research, education, extension, transport, etc. must be refurbished and upgraded.

The marketing system for crops which flow to the international markets need restructuring to assure that maximum prices are obtained on the world market; processing and marketing costs are minimized; and returns to farmers through the marketing system and government are apportioned in a way which contributes to agricultural development. To assure farmers will deliver crops to primary societies the financial viability of the cooperatives needs to be reestablished. Finally, new technologies and new cropping patterns need to be developed and put in place in accordance with the domestic and world markets for agricultural products, agricultural inputs and agricultural services.

C. THE ROLE OF WOMEN IN DEVELOPMENT

Women are a major factor in the rural economy in Uganda. They are responsible for most aspects of food crop production, for daily maintenance of the family, for marketing food crop surpluses and for procurement of basic necessities not produced within the household. Women's roles within the household extend to decision making as well as the provision of labor. With the growth in the 1970's of the importance of food crops as a major source of income for the rural household, the productive role of women in the rural economy expanded. Though women are also active in the wage economy, 90 percent of Uganda's population is rural and predominantly engaged in agricultural enterprises. Thus, this section will concentrate on women in the rural household.

Women perform most of the food-cultivation tasks. Women make decisions in consultation with male heads of households concerning the amount and types of annual crops to be grown. (In the absence of an adult male in the household these decisions are made by the senior female.) In the north, such decisions on resource allocations usually include those associated with cotton production as well as staple food crops. In the south, men have major responsibility for, and concomitant control over, perennial crops such as bananas and coffee, though women may supply labor for weeding and harvesting.

Agricultural tasks are sometimes sex-specific, but, with the

exception of land clearing (generally men's work) and weeding (generally women's work), many operations are increasingly performed equally by men and women. Carr[17] cites the following data on the division of agricultural labor:

ESTIMATED LABOR ALLOCATION IN THE ACHOLI-LANGO AREA IN 1968 (% OF TOTAL LABOR)

TASK	MALE	FEMALE
Land clearing and preparation	71	29
Sowing	71	29
Weeding food crops	1	99
Weeding cotton	86	14
Harvesting food crops	36	64
Harvesting cotton	71	29
Livestock	100	0

Recent anecdotal evidence indicates that the sexual division of labor for several tasks have broken down even further, especially in poorer households where men and women engage in most activities simultaneously. For example, in planting, men will prepare the ground, while women and children follow him to do the actual sowing. In some instances, a distinction was made between hoe weeding and hand weeding, the latter still being a predominantly female activity.

17/ Carr, Steven. "Influencing Peasant Farmers". 1977, p. 7.

Women are very much involved in the processing and marketing spheres for annual crops. Surpluses of foodstuffs of all types are marketed. Women prepare such crops for marketing (e.g. winnowing and sifting grains, splitting and drying cassava or shelling groundnuts) and market small quantities either by the roadside or in local markets. In addition to cash sales, there appears to be a substantial amount of bartering practiced, again by women. Women also brew and sell beer made from cereal grains plantains and roots. In each instance, women retain the income from these sales to pay for basics such as salt, sugar, fish, meat, soap and clothing. There is also some evidence that payment of school fees is becoming the responsibility of the female as well as the male in families whose income is derived exclusively from agriculture.

Although there has been a significant decline in cotton production in Uganda, cultivation of this annual crop has fallen within the purview of women in the past. In the Gulu area, there are several active primary cooperative societies for marketing cotton whose membership is entirely female. Men are allowed to sell through the societies, but are not accorded membership (the reverse of the situation in many cooperatives, in which women benefit from such societies only by virtue of their husbands' membership). One women's society marketed 83,000 kilograms of cotton in the 1981 season. Such female-run cooperatives are rare,

particularly as women tend to be more active in the sale of food crops than in export crops. Since 1977, food crops have been bought and sold on the open market rather than through the Produce Marketing Board, but the Government has recently shown interest in establishing food reserves and reviving the cooperatives' role in this regard. The potential for women's primary cooperative societies in the marketing of surplus food for such reserves would appear to be excellent.

In addition to supplying labor for their own crops, women engage in communal work, both on a reciprocal exchange basis and a fee-for-service basis. The fee may be paid in cash, kind or in "entertainment" (beer and food). Work parties are arranged by men, women or jointly, depending on the nature of the activity. Women with adequate incomes also sometimes hire labor for a cash wage, as in the areas where ox-plows are used for land clearing and preparation. Thus, women function as both suppliers and consumers of agricultural labor outside of their own farms.

In terms of domestic labor, however, women have a virtual monopoly on labor supply. Together with young children (especially girls) women process and prepare food for home consumption, clean, launder, draw water and gather fuelwood. These latter two tasks can be particularly time-consuming. Uganda is fairly well-endowed with natural water resources, and in earlier times Government made

an effort to provide reasonably closely-spaced water points (mostly handpumped boreholes) for rural households. As with every other aspect of infrastructure, though, the system has deteriorated over the past 10 years, and there is a need to rehabilitate silted boreholes to assure an adequate water supply to all rural dwellers.[1/] This would relieve the inordinate demand placed on women's time by the need to walk up to 10 miles roundtrip in some areas for water.

In contrast to the water situation, fuelwood appears to be in good supply in rural areas and its collection is not a serious detraction from more productive uses of women's labor. In fact, fuelwood is often collected for roadside sale to urban dwellers. Urban women also use charcoal for cooking, so the demand for firewood on city and town outskirts is reduced. Government has also evidenced some awareness of fuelwood as a finite resource and has made some effort to establish tree nurseries throughout the country. This presents another potential for women's participation -- in the development of communal woodlots.

In terms of social services to women, Uganda has experienced a decline in virtually all aspects. Health facilities are scarce and vaccination campaigns have ceased. Measles have surpassed

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1/ UNICEF is committed to the restoration of 4,000 boreholes.

malaria as the most prevalent disease.[1/] In 1979, UNICEF provided resources for maternal and child health kits to equip 300 health centers. However the demand for services continues to exceed available resources, and, as in all other areas, there is a need for technical upgrading. Although there are no recent figures on infant mortality, the breakdown in health services certainly places pregnant women and infants at greater risk.

Education may be the sector that has moved furthest toward rehabilitation. While still lacking in many basic inputs, and having slipped from its former position of supremacy among East African systems, schooling does continue. Fleuret[2/] cites figures indicating that female enrollment in schools, although below that of males, appears to be changing at a similar rate, which he takes to mean that the same factors are taken into account in deciding whether to send a child, regardless of sex, to school. As Fleuret points out, this implies that "increases in rural productivity and incomes will bring proportional increases in school attendance among girls."

Women's economic activities and access to social services have implications for population growth rate in Uganda. Over the past decade, growth has averaged about 3.0 percent annually,

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1/ Kyaruzi, V. & Hamisi, Ruckia. "Health Services." The Rehabilitation of the Economy of Uganda, Vol. 2, 1979, p. 251.

2/ Fleuret, Patrick, "Draft Background Paper..." 1980, pp. 36-7.

compared to a 4.0 percent growth rate in neighboring Kenya. Population pressure on the land base is beginning to be felt in the more fertile agricultural zones. However, it is more likely that, rather than a conscious awareness of overcrowding, the relatively low rate of growth can be ascribed to the active role that women have been playing in the national economy and to their access to education. As Fleuret [1/] notes, there is a general correlation between woman's status (measured by productivity and education) and the decline in family size. In this regard, Uganda has an opportunity to maintain a population growth rate that is commensurate with its resources and productive capacity, and to continue to enhance the role of women in economic development.

The Government interest in increasing agricultural production, and especially in becoming an exporter of food crops as well as the traditional coffee, cotton, tea and tobacco bodes well for maintaining the contribution of rural women to the national economy at a relatively high level. At this point, however, the effects of Government policy on women are more inadvertant than deliberate and will need to be more strongly articulated through such activities as agricultural research and extension work that recognizes women as key decision-makers and major providers of agricultural labor. This should be coupled with adequate family planning, maternal and child health, nutrition education and other social services.

[1/] Ibid. p. 36

Finally, it should be noted that women do occupy positions in the formal sector. Fleuret[1/] presents the following data on labor force participation rates:

	1960	1970	1974-77
Male	58%	57%	56%
Female	31%	29%	28%
Total	45%	44%	42%

Women are found in all aspects of industry and government. There are female workers in agricultural processing (e.g., coffee and cotton plants), in small businesses (e.g., tailoring, retail sales), in government as both professional and clerical staff, in education, domestic service and health. There are also several prominent women in the business community. As stated in Section II of the Analysis, the condition of those who are completely reliant on wages as their income source is considerably poorer than those who have been able to supplement their incomes by some other means. There are, of course, the expected trade-offs: women in the wage sector tend to be located in urban areas where they have better access to social services than their economically-better-off rural counter-parts. Formal sector employment for women can be expected to rise as the rehabilitation of the Uganda economy continues, but in the near term rural women will continue to be the backbone of the agricultural economy and thus a critical element in the country's development.

1/ Ibid. p. 36.

D. DEVELOPMENT PLAN AND BUDGET

Uganda is in the process of formulating a development plan for the next five years. The policy guidance which will determine the structure and content of the development plan has been determined. This calls for the years 1982-83 to be devoted to the repair and rehabilitation of the economic structure and system. This is to be followed by renovation and expansion of existing institutions during the years 1984-85. It is then expected that in 1986 Uganda will initiate a sustainable development program. The major emphases of economic development policy during this period in priority order are as follows:

1. Increased production of agricultural products for export and domestic consumption is considered to have first priority. Within this priority initial attention will be given to expanding production of exportable crops because of the critical importance of foreign exchange. Economic stability and the acquisition of imported inputs to rehabilitate and develop food production, industrial production and institutional support are dependent on increasing foreign exchange availabilities.

2. Second priority is being given to the rehabilitation and expansion of the economic support system. This includes such things as cooperatives, transport system, research institutions, health and education systems, extension services and credit.

3. Rehabilitation and expansion of industrial production including manufacturing, mining and construction.

4. Development of water resources and the development of energy resources. This includes the expansion of hydro-electric power capacity for export and domestic consumption and the development of wood resources.

5. Resolving the external transport problems that have developed as a result of the breakup of the East African Community. Government will work through the European Economic Community to see if administrative practices used by the EEC can be applied to the East Africa situation.

In seeking to implement these development plans, government policy emphasizes an open market orientation with joint participation of private business, cooperatives and public enterprise operated by competent people. The government's position is that it does not have the capability to run a substantial portion of the economy. Government welcomes investment in Uganda by foreign private investors. In carrying out rehabilitation and development activities it is expected that the lead sector will be small holder agriculture. Government will emphasize projects and programs which will increase the productivity of small farm operations.

It may be that government is overly optimistic in believing it can complete rehabilitation of the economy by the end of 1983. As the actual plan is developed, project preparations and implementation schedules are considered in detail and more realistic estimates are made of funding availabilities, it may well be necessary to extend the rehabilitation period for a year or more.

What may be a major difficulty in the preparation of development plans is the often expressed desire by many Ugandans to return to the status quo ante. That is, they believe that the first development objective should be to return to the state of the economy that prevailed prior to the Amin coup.

It is indeed true that before the military takeover in early 1971 Uganda, from an economic perspective, was an African country that was doing quite well. It was more than self-sufficient in food and its nutrition level was good. Its exports were rising and its import costs were manageable. Its infrastructure, especially the road system, was undeniably one of the best on the continent. The agricultural processing mills were operating; there was a vigorous industrial sector which exported to surrounding countries and during the 1960's the compound growth rate was 9 percent. But perhaps Uganda's greatest asset in the 1960's was the breadth of its intellectural base supported as it was by Makerere University. The quality of its civil servants was high. These indeed were substantial achievements.

The image of the 1960s, however, can indeed be somewhat misleading and in any case questionable as an objective for the 1980s. First there were a host of problems in the 1960s. Poverty was still widespread, technology was limited and the economy was based on rather typical export crops: coffee, cotton, tea which then as now are subject to wide price gyrations in international trade. But the real doubt about excessive reliance for guidance on the 1960s arises because certain aspects of the domestic economy and the entire international economy have changed significantly.

Domestically, population has increased by several million while the physical and technical environments and skills, through neglect, have deteriorated. For example, it is reported that on Mt. Elgon population pressure has caused serious soil erosion and was threatening the future production of arabica coffee there. Marginal costs of expanding agricultural production in the 1980s are certain to be far higher than during the 1960s. Development opportunities in agriculture in the 1980s also have changed. During the 1960s surrounding African countries were, by and large self-sufficient in basic foods, but now they are, for the most part, food importers. This provides Uganda with the opportunity to shift toward food production for cash and foreign exchange in addition to local consumption. On an international plane, during the 1970s when the Ugandan economy was being strangled and run-down by Amin, astronomical rises in oil prices and industrial goods led to unfavorable terms of trade for countries like Uganda causing major shifts in economic dependence and technological costs. Last but

perhaps more important, the Uganda Government has recently taken a series of far reaching economic measures toward a new "market oriented economy." For these reasons and more it would be unwise for Uganda to attempt to achieve the status quo ante.

In preparing the development plan, government has requested the assistance of three international organizations--the World Bank, the Commonwealth Secretariat and the United Nations. All three have responded positively and are currently providing the requested assistance. The participation of outsiders in the preparation of the development plan probably reduces considerably the possibility that Uganda will produce a plan that calls for a return to the "good old days" of the late 1960's. The schedule calls for the completion of an initial two year development plan by the time the Consultative Group meeting is held in May, 1982.

The Uganda budget for the fiscal year 1981-82 totals UShs 41.966 billion equal to approximately $488 million at the exchange rate in effect on February 2, 1982. Of this amount, UShs 22.35 billion is for recurrent expenditures and UShs 19.616 billion is earmarked for development expenditures. Recurrent budget revenues are estimated to total UShs 25.3 billion. The nearly 3 billion surplus over estimated recurrent expenditures will be used to retire a portion of the accumulated UShs 12.8 billion recurrent budget deficit. It is planned to finance the development budget largely from foreign loans and grants.

Absorptive Capacity. It is highly improbable that there would be any absorptive capacity problem in Uganda. Based on material developed by the World Bank and the Commonwealth Secretariat, it can be estimated that the financial resources needed for the two year rehabilitation program planned for 1982 and 1983 would total in the neighborhood of $1.5 billion of which over $1 billion would be foreign exchange. It is not likely that this magnitude of resources will be available from concessional assistance and commercial loans.

With respect to management and technical capability it again appears highly unlikely that Uganda would be unable to manage effectively anticipated inflows of external assistance. During the rehabilitation period much of the work to be accomlished is in reburbishing and restarting operations that Uganda had demonstrated in the past that it could manage. In this connection the Uganda Government decision to invite back Asians with managerial and technical skills to operate business enterprises including estate agriculture will help assure that the skills necessary to make effective use of development assistance are present. Additionally, government has clearly stated that it is prepared, indeed anxious, to obtain the technical assistance necessary to complete rehabilitation and initiate development activities. Additionally, high on the list of requests for assistance are training courses to enable Ugandan managers and technicians to upgrade skills and to catch up with progress made in their fields of speciality over the past ten years.

Thus such institutional and personnel weaknesses that exist are opportunities for additional development investment rather than constraints on such investments.

Finally, the policy directions now being taken by Uganda are consistent with policy directions expressed by AID. Thus, the present policy reforms being undertaken by Uganda should not impose any constraint on the willingness of the U.S. to provide development assistance.

E. OTHER DONORS

The major donors to Uganda are the International Monetary Fund, the World Bank, the European Economic Community and the African Development Bank. The IMF is currently providing Uganda with balance of payments assistance equal to $135 million under a standby arrangement that runs from June 5, 1981 to June 30, 1982. IMF assistance to Uganda can be anticipated to continue at least over the next two year period. The World Bank is currently providing about $112 million dollars of assistance to Uganda, most of it under a reconstruction credit valued at $95 million. If Uganda government performance is satisfactory, it can be expected that IDA credits would total nearly $100 million for each of the next several years. The European Economic Community has underway or is committed to provide assistance to Uganda valued at $252.8 million. Of this amount, $218.2 million in assistance is being provided under the provisions of Lome I and II with the remainder provided as special assistance to emergency situations. In addition, Uganda will share in the benefits from $126.5 to $154.0 million in regional funds to be provided to East African countries by EEC. The African Development Bank is currently providing Uganda with equivalent to $120 million. Medium size donors include the UN, $20 million; Kuwait, $30 million; Saudi Fund, $32 million; Arab Bank for Africa Development, $30 million; and IFAD, $20 million. Other donors of amounts from $1 to $15 million include Great Britain, Germany, Italy, Netherlands and Canada.

Assistance being provided to Uganda by other donors is focused on balance of payments support, inputs needed to increase agricultural and industrial output and the reconstruction of deteriorated infrastructure. Some technical assistance is being provided by IFAD, UN, IMF and in limited amounts by the smaller donors. In providing balance of payments support, the IMF and the World Bank are using their influence to bring about policy changes which are compatible with U.S. interests. Assistance to agricultural production from a number of donors is largely directed towards providing inputs to small-holders. In addition bilateral donors are providing machinery, equipment and spare parts to cooperative unions which process agricultural products and industry which manufactures agricultural supplies and equipment. These assistance activities are consistent with USAID development strategy objectives.

III. STRATEGY

A. OBJECTIVES

The objectives of U.S. development assistance to Uganda are to be supportive of policies which foster development, to increase agricultural production and marketing and to restructure agriculture in line with requirements and constraints of the 1980's. We will seek to strengthen the services needed to help develop the private sector and return parastatals to private entrepreneurs. Also, we will explore means of addressing the country's energy problems. Finally, we will reinforce the concern with the country's high population growth rate and will help improve the delivery of family planning services.

The assistance strategy for reaching the above enumerated objectives is determined by the limited funds available for U.S. development assistance to Uganda and by the role of the major donors in Uganda, particularly IMF and the World Bank. The U.S. assistance strategy is designed to be supportive of the major donors in a way which will enhance the chances that the major policy reforms supported by the IMF and the World Bank and their associated major resource transfers will be more developmentally effective. The USAID will not become directly involved in major policy issues such as exchange rates, prices and wages,

fiscal policies and money and credit. Rather this role will be left to the IMF and World Bank who are helping with reforms consistent with U.S. policy objectives. The U.S. will be supportive of the IMF and World Bank in international fora and on other appropriate occasions.

B. AGRICULTURE

In the agricultural policy area the USAID will focus its attention and influence on issues critical to development, particularly as these issues relate to small-holder agriculture. The primary objective that the USAID will have in addressing agricultural policy issues will be to try to assure that policy decisions are made in the context of the development opportunities and constraints operative in the 1980's. Policy issues addressed will include research policy and structure, marketing policies including increasing the role of private enterprise and stimulating competition, input supply policies and practices and policies affecting the composition of technological inputs and types of crops and livestock produced.

The types of policy issues dealt with might include the following:

1. Revising the coffee marketing system in a way which would maximize returns on the international coffee market,

provide incentives to minimize marketing and processing costs and maintain government revenues from coffee sales at reasonable levels while ensuring incentive returns to growers.

2. Restructuring the agricultural research system so that it would include research on new crop possibilities, farming systems research and farm management and marketing.

3. Developing adequate policies for altering cropping patterns and processing agricutural products in accordance with current internal and external economic realities with particular attention to energy and transport costs.

The assistance strategy will be carried out by providing small but critical amounts of technical and material assistance which will increase the operating effectiveness of various components of the agricultural system in a manner which will facilitate rehabilitation of the economy and development within the context of major donor supported reforms and resource transfers. Assistance to agriculture will be focused on the following areas :

1. Increase and adjust to current internal and external demand agricultural production, with particular emphasis on the small-holder. Emphasis will be placed on the small-holder because he/she has demonstrated a high order of efficiency as producers, a predisposition to adopt appropriate technological

changes and will in the future as in the past be the major producer and consumer of goods and services including employment. While major emphasis will be on small-holder production, assistance to medium scale products, 10 to 50 hectares, will be provided if the activities supported will result in increased farm and industrial employment.

2. Improve the effectiveness of cooperatives and private traders in providing input supplies to farmers, in procuring and processing farm products and in selling on the world market. Included within the parameters of such assistance would be increasing the effectiveness of such things as credit, transport, and distribution.

3. Rehabilitation and redirection as necessary of various elements of the agricultural support system. This would include research, extension, information services and education. Assistance to agricultural education could range from aid to Farmer Training Centers and Cooperative Wings through Diploma Colleges to appropriate faculties of Makerere University.

In view of the deterioration and destruction of physical and human capital throughout the agricultural system during the period of the Amin regime and subsequent turmoil, assistance will include both material and technical assistance. Material assistance will be utilized to replace or repair destroyed tools,

equipment and supplies ranging from hoes through test tubes, books, computing and reproducing equipment to vehicles. Technical assistance will be utilized to restructure and redirect the function of various components of the agricultural system and to upgrade and modernize managerial, professional and technical staff.

C. PRIVATE ENTERPRISE

We have not articulated an AID strategy for helping to strengthen the services needed by the private sector and to return parastatals to private entrepreneurs at this time. While the Government has clearly indicated its intention to mobilize the private sector in the development effort and to rid itself of many inefficient government enterprises, how this objective will be approached is not yet clear. As its policies are defined we do not yet know what the bottlenecks may be that could impede entrepreneurs from expanding rapidly. The Government is now preparing for the Consultative Group meeting in May, 1982, and we anticipate that it will make a clear policy statement by that time. A Commonwealth team now is in Uganda reviewing the performance and needs of government enterprises and barriers to private sector development. Also, the World Bank and IMF are continuing their consultations on these economic issues. Thus, by May the Government should have a clear understanding of how it will implement its policy decision.

AID should be prepared to examine means of supporting the Government's intentions after a clear policy has been enunciated. With REDSO/EA assistance USAID is looking into the problem of finance and credit, an area that appears to be a major constraint to private sector operations. Other potential

problem areas include the lack of trained middle level staff personnel (accountants, financial analysts, economists, etc.), the scarcity of qualified operating personnel (industrial design engineers, quality control staff, mechanical engineers, etc.) and the dearth of top management personnel with skills needed to efficiently administer medium and large scale enterprises. With other donors AID will continue to explore these issues to determine if limited manpower training or technical assistance could help overcome possible bottlenecks. The lack of access to foreign exchange is, of course, a major barrier to private sector expansion. To a limited extent the IMF, IBRD and EC are helping address this problem. If additional funds are available, however, USAID proposes to work with intermediate financial institutions to help them channel more resources to private enterprises. The need for capital assistance would be limited in time as Uganda begins to rehabilitate its foreign exchange earnings through exports and as its creditworthiness is restored.

D. ENERGY

Beyond its concern with petroleum imports the Government has not begun to address the country's energy problem. We do not know the dimensions of the country's energy problem, the impact it may have on the environment, current levels and modes

of consumption, or future requirements and how they may be met. The problems would appear to be substantial, however. Over two-thirds of the country's import bill is consumed on petroleum imports. Also, many enterprises shifted earlier from electrical to petroleum power. As manufacturing and industry begin to pick up, the country's energy needs will grow rapidly.

REDSO/EA is in the process of establishing a team consisting of energy, environment, and forestry advisors to provide an overview of a country's energy sector and determine areas of policy concern. This assessment will be undertaken in Uganda during FY 1982. At this time we do not anticipate that USAID will have substantial bilateral involvement in the energy sector. Our concerns with energy will be limited to the policy issues that the overview may identify and to sharing them with other donors providing substantial levels of external assistance. We may also want to experiment with small pilot activities that the Government might later replicate, such as our current effort to produce charcoal from waste coffee husks. If so, these experimental activities would be supported from central or regional projects such as Improved Rural Technology or Energy Initiatives in Africa.

E. FAMILY PLANNING

The Government recognizes the tremendous burden its rapidly growing population places on its ability to improve the quality of life for Uganda's citizens. In its country report prepared for the UN Conference on Relatively Less Developed Nations, the Government declared its intention of lowering the population growth rate from the currently projected level of 3.0 percent to 2.6 percent annum. It will attempt to achieve this goal by increasing public awareness of family planning and ensuring that adequate attention is given to promoting the delivery of basic family planning services. Delivering of these services would come through the Ministry of Health, primarily through its maternal child health care program.

Both IPPF and Pathfinder are helping the country improve its family planning activities, primarily through assistance to the Family Planning Association of Uganda (FPAU). We have complemented these efforts with selected training financed with central and regional AID funding. Further expansion and improvement in the country's ability to provide family planning services will depend largely upon rehabilitation of the Ministry of Health's services. Since IPPF and Pathfinder are largely meeting current needs, AID assistance will be limited to further selected training activities. The purpose of this

training will be to motivate Ugandans to be concerned with reproductive health care and to improve the capability of Ugandan training institutions to educate personnel to better provide family planning services.

IV. ASSISTANCE PLANNING LEVEL

A. PROPOSED ASSISTANCE LEVEL

Uganda has instituted a bold program of economic policy reform that is consistent with AID policy. Uganda is also emphasizing the growth of private enterprise as a major factor in its development. The question is whether the AID assistance program is capable of helping meet this challenge. The Indicative Planning Allocation provided by AID/Washington would indicate that AID is not prepared to reorder its priorities to respond to the opportunity of helping Uganda make its fundamental reorientation of economic policy successful.

The economic problems that Uganda faces in attempting to carry out the policy reforms can only be addressed successfully if the country has access now to large amounts of foreign exchange. The only possible source of foreign exchange at this time is from donor assistance. This is because Uganda must have the production inputs (seeds, hoes, fertilizer, baling hoops, ginnery parts, coffee processing plant spares, etc.) to get its exports up and start earning significant amounts of foreign exchange again. Once this process takes off Uganda will have little need for substantial capital transfers as its creditworthiness will be restored and it can borrow again on commercial

TABLE 6

Proposed Assistance Level

($'s Million)

Categories	Fiscal Years				
	1983	1984	1985	1986	1987
Agriculture	16.0	16.0	6.0	7.5	8.0
Agricultural Production	15.0	14.0	-	-	-
Institution Building	1.0	1.0	2.5	3.0	4.0
Human Capital Development	-	1.0	1.5	1.5	1.0
Cooperatives	-	-	2.0	3.0	3.0
Private Enterprise (includes agriculture related activities)	4.0	4.0	4.0	2.5	2.0
Energy	No USAID funding; Central/Regional funding only				
Family Planning	" "	"	"	"	
Total	20.0	20.0	10.0	10.0	10.0

In addition to making a meaningful contribution to the success of the new economic policies in Uganda, we propose a higher level of funding for two reasons. First, the Ugandans have deep professional respect for U.S. expertise, particularly in the agricultural field. They are eager for American personnel to rejoin their efforts to rehabilitate the economy. We were one of the first donors active in the country after Liberation and we have access to and good relations with policy level officials throughout the Government. Even when no AID resources were available to support sectoral reform activities the Ugandans were keenly interested in obtaining professional U.S. advice on sectoral policies. For example, the Ugandans unilaterally sought out U.S. help in restructuring their commodity boards and crop processing facilities. In the future the Government will have to address a number of serious structural issues within the agricultural sector. These include such problems as research priorities, the locus of research efforts and the magnitude of resources devoted to its various components, priorities for crop production,and pricing policies. The likelihood of the Government's acting upon our technical advice will be multiplied if we can provide needed follow-on resources, both technical and material. Thus, to implement the marketing board study's recommendations will require the help and advice of economists, tax specialists,

B. INDICATIVE PLANNING ALLOCATION

If the U.S. decides not to come forth with generous support now of the economic initiatives Uganda has adopted we propose a program based on the table below. We have chosen the high option of the Indicative Planning Allocation in order to help reinforce the reforms already underway. Also, we believe it is essential that the U.S. put meaningful amounts of resources into support of private enterprise development and the rebuilding and restructuring of the agricultural support system. The low option should be considered only in the unlikely events that there is a serious deterioration in political stability or there is a total retrenchment in the government's reform efforts.

C. PL 480

We request no PL 480 program for Uganda at this time. We do believe that it would be helpful to provide a carefully structured program of PL 480 assistance if it could be used to support important economic reform objectives. The government recently has renewed its request for a PL 480 program. We are exploring a possible activity that would integrate the divestiture of government-owned oil processing facilities with the future production of new oil seed crops. The initial stage of this activity might be supported through PL 480.

D. PROGRAM MANAGEMENT

An Acting Director and an Administrative Assistant now are onboard with USAID/Uganda. An Agricultural Officer will arrive in February, 1982 and we are recruiting a Management Officer and Project Officer. This staff should be able to manage and implement the program recommended in this CDSS. In the past USAID has relied heavily on REDSO/EA for technical services including legal, contract, project design and supply management. The Regional Financial Management Center also has provided excellent support to USAID and we anticipate the need for continuing support from both of these operations.

Projects will be carried out primarily with contract personnel. USAID has had a close relationship with many of the PVOs in Uganda including CARE, the Experiment in International Living, Save the Children and others. We will continue to draw upon their services and will be supportive of future efforts on their part in Uganda so long as they are complementary to AID's efforts in our primary area of concentration.