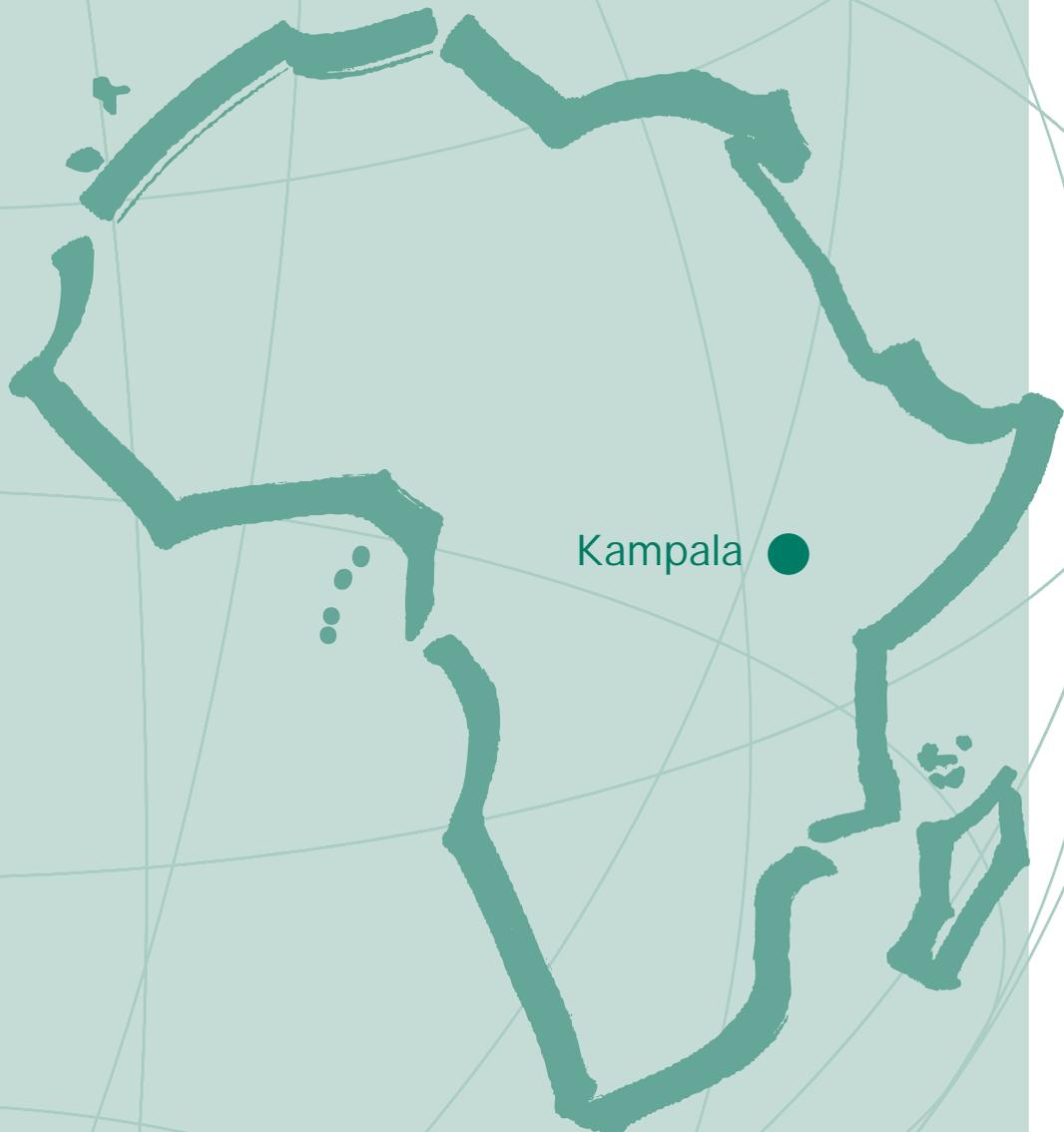


Uganda



key figures

- Land area, thousands of km² 241
- Population, thousands (2001) 24 023
- GDP per capita, \$ (2001) 238
- Life expectancy (2000-2005) 46.0
- Illiteracy rate (2001) 31.9

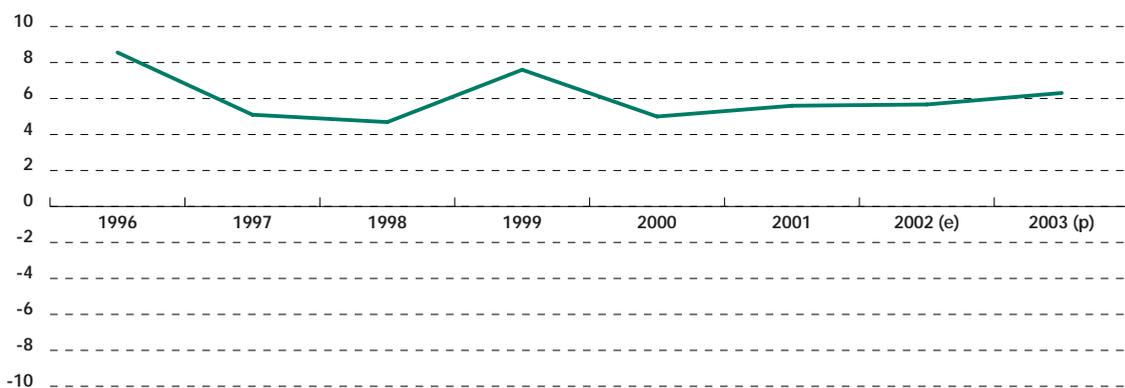
Uganda

THE UGANDAN ECONOMY is benefiting from the successful implementation of sound economic policies. The success is shown in strong economic growth, low and steady inflation, increasing per capita incomes, and marked decline in the incidence of poverty. Real GDP growth remained strong in 2001/02 at 5.6 per cent, albeit slightly reduced from the annual average rate of 6 per cent achieved since 1994/95. The outlook on growth is stabilisation in 2002/03 with real GDP growth estimated at 5.7 per cent. Growth is projected to increase to 6.3 per cent in 2003/04. Prudent fiscal management has enabled Uganda to maintain an increased expenditure programme for poverty alleviation, which is beginning

to make a positive impression on the poverty situation of the country. However, the recent budget outcome has been characterised by a widening deficit financed by large inflows of external budgetary support that has increased the dependence of the economy on foreign donors. The deficit widened in 2001/02 though the outlook on the public finances is a gradual contraction in the budget deficit in 2002/03. Sound monetary management has resulted in a slowdown in monetary expansion that is contributing to subdued inflationary pressures, declining interest rates, and relative stability in the exchange rate of the shilling. The outlook

Strong economic growth and sound economic policies are beginning to reduce poverty in Uganda

Figure 1 - Real GDP Growth

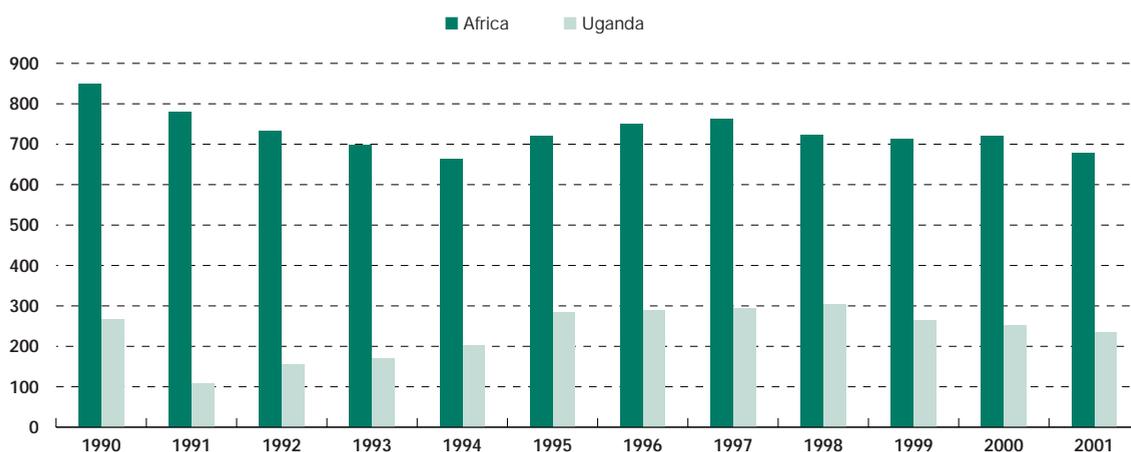


Source: Authors' estimates based on IMF and domestic authorities data.

is for inflation to remain low at an estimated annual rate of 1.0 per cent in 2002/03; inflation is projected to rise to 3.1 per cent in 2003/04. The external sector of the economy also remains weak due to stagnation in exports that derives from declines in international prices of Uganda's export commodities. Uganda's trade deficit is estimated to widen further in 2002/03 and 2003/04. Uganda's external debt sustainability indicators have, however, improved due to disbursement of resources from the Heavily Indebted Poor Countries (HIPC) debt relief initiative. Uganda's progress in structural reforms has not matched the pace of other economic reforms. After a decade of privatisation, the country has by June

2002 divested 74 enterprises out of a total of 155 slated for privatisation. The privatisation process has been dogged by accusations of lack of transparency and corruption. The government's commitment to a renewed transparent process is necessary to revamp the process. The political environment of Uganda is relatively stable, with the country's democracy deepening as the government makes continuing efforts to improve its ways of exercising political, administrative and managerial authority. Although currently there is an atmosphere of relative security in the country, it remains important for the government to continue with conflict resolution in the problem areas.

Figure 2 - GDP Per Capita in Uganda and in Africa (current \$)



Source: Authors' estimates based on IMF data.

Recent Economic Developments

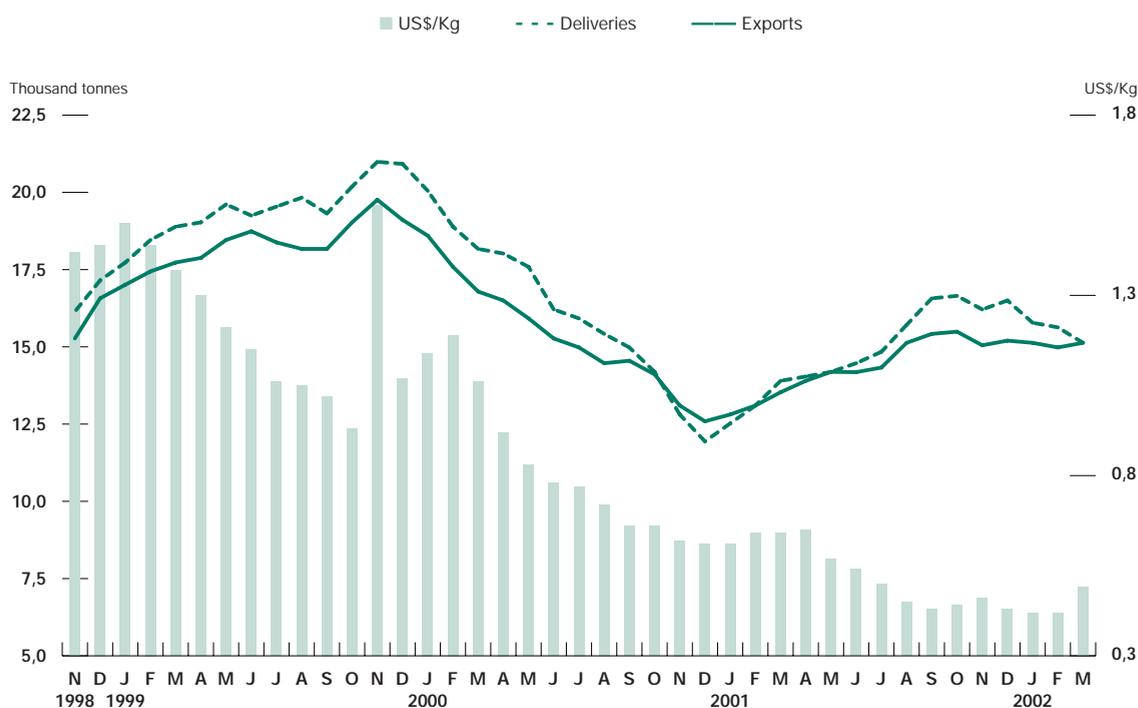
Uganda maintained strong real GDP growth in 2001/02 (July-June). According to the re-based GDP series (using 1997/98 prices instead of 1991 prices), real GDP is estimated to have attained a strong growth rate of 5.6 per cent in 2001/02, down marginally on the rate of growth of 6 per cent realised in 2000/01, and also down on the yearly average growth rate of 6.2 per cent achieved during 1994/95-1999/00. The slack in economic growth, which started in 1999/00, has been attributed to the fall in the international price of coffee, to drought and the increase in pests and diseases affecting the agricultural sector, which affected the expansion of the productive sectors of the economy.

In 2001/02, the agricultural sector accounted for 35 per cent of GDP and led the growth of total output expanding by 4.8 per cent compared with 4.6 per cent in the previous year. Livestock, forestry and fisheries together contributed the largest share of agricultural output in 2001/02, and expanded by an average 5.8 per cent compared with 4.4 per cent in 2000/01. Although food production increased by 4.6 per cent in 2001/02 this rate of expansion was down on the level of 6.2 per cent achieved in the previous year. The output of cash crops increased by 3.4 per cent in 2001/02, compared with the decline of 4.7 per cent registered in 2000/01, with the expansion due mainly to recoveries in cotton,

sugarcane and tobacco production as well as improved performance of tea and other cash crops such as flowers, cocoa and vanilla. On the other hand, coffee output declined by 6.8 per cent in 2001/02 to follow the 3.4 per cent decline in 2000/01. The dramatic decline in world coffee prices has been devastating, undermining the ability of the domestic authorities to increase the producer price, while internally imperfect and poorly regulated quality production has reduced the competitiveness of the coffee industry. The general improvement in agricultural output during 2001/02 was due essentially to good weather conditions although some initiatives of the government under the Plan for Modernisation of Agriculture (PMA) generated positive supply responses. These initiatives included the distribution of plantlets of tea to households, the supply of cotton seeds to ginners, and the stocking of lakes with fish fry.

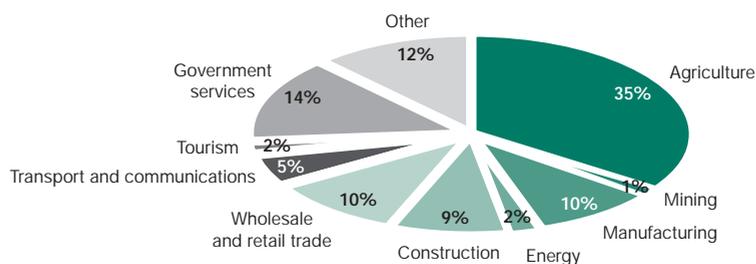
Manufacturing in Uganda continued to increase significantly in 2001/02, albeit at a slower rate than in the previous year. The manufacturing sector contributed about 10 per cent of GDP and grew by 7.4 per cent in 2001/02 compared with 8.9 per cent in the previous year. The expansion in manufacturing output in 2001/02 generally reflected increased domestic demand for manufactures as disposable incomes increased with the continued economic expansion. The expansion in manufacturing activity was derived mainly from

Figure 3 - Coffee Deliveries, Exports and Price Realised - January 1999-March 2002



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - GDP by Sector in 2001/2002

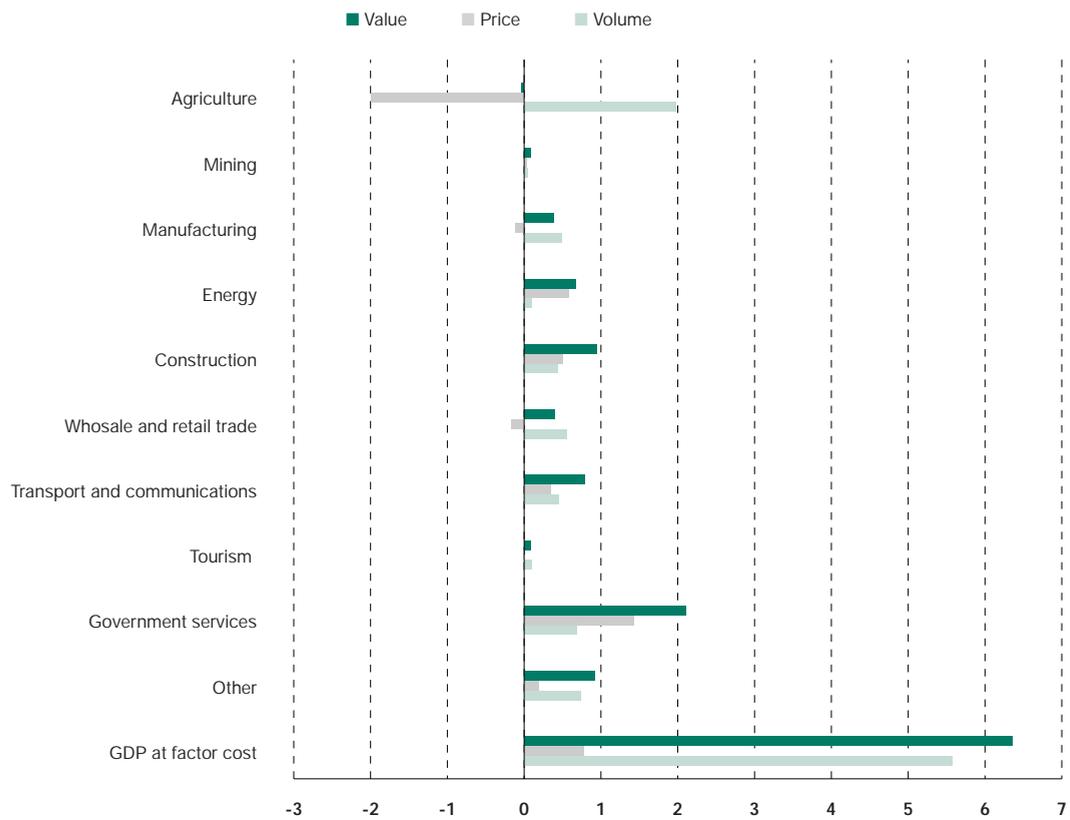


Source: Authors' estimates based on IMF data.

significant increases in the production of textiles and cement, with the production of household commodities such as soap, edible oils and soft drinks also experiencing significant growth. An increased demand for construction materials such as cement and stones contributed to strong growth in the mining and quarrying sector, which achieved a growth rate of 7.8 per cent in 2001/02 compared with 5.9 per cent in 2000/01.

The services sector also continued to perform well in 2001/02 buoyed up by significant expansion in communication and construction. Communications expanded significantly in 2001/02 registering a growth rate of about 10 per cent, up on the 8.2 per cent achieved in 2000/01, as the economy experienced continued expansion in mobile, cellular, internet and fixed telephone services since 1996. Likewise, construction expanded by 6.6 per cent in 2001/02, up

Figure 5 - Sectoral Contribution to GDP Growth in 2001/2002



Source: Authors' estimates based on IMF data.

from 2.9 per cent the year before due mainly to resurging mining and quarrying activities. Wholesale and retail trade maintained a 6.2 per cent growth rate. However, growth in hotel and restaurant services slowed down from the rate of 6.1 per cent in 2000/01 to 5.4 per cent in 2001/02 in the wake of the September 11 events in the United States that affected the tourism.

The expansion of Community Services, including central government services, also slowed from 7.5 per cent in 2000/01 to 5.9 per cent in 2001/02. Notwithstanding the slowdown in the expansion of community services, the government maintained strong expenditures in the key social services of education and health as part of the poverty alleviation strategy.

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Gross capital formation	17.1	17.2	18.8	20.1	19.5	19.9
Public	6.1	5.5	6.1	6.3	5.7	5.8
Private	11.1	11.8	12.7	13.8	13.7	14.1
Consumption	95.4	100.4	103.1	104.9	106.4	106.9
Public	10.6	11.1	12.6	12.6	12.3	12.1
Private	84.8	89.2	90.5	92.3	94.1	94.8
External sector	-12.5	-17.6	-21.9	-25.1	-25.9	-26.8
Exports	11.7	11.4	10.1	9.8	9.8	10.1
Imports	-24.2	-29.0	-32.0	-34.8	-35.7	-36.9

Source: Authors' estimates and predictions based on domestic authorities' data.

The Ugandan economy has maintained a structure of demand, with the recent growth performance underpinned by high consumption especially private consumption. In 2001, consumption levels attained the highest share in GDP for about six years, reflecting the “feel good” factor as Uganda enjoyed relative peace compared to recent years. The investment level was also important as a result of high inflows of foreign savings. The outlook on the demand composition of GDP is for further increases in consumption, with stabilisation in the share of investment in total output.

Macroeconomic Policy

Fiscal and Monetary Policy

The focus of fiscal policy of the Ugandan government in 2001/02 was on three key objectives: stimulating the economy; strengthening tax administration; and raising tax revenues. This policy stance was aimed at adjusting the underlying feature of a widening fiscal deficit in relation to GDP, financed by large foreign inflows of budget support. The ever-widening fiscal deficit is seen as the major challenge to Uganda’s fiscal performance as it exposes the government’s budget position to policy changes with respect to foreign aid and foreign policy. It also strains private sector activity in the country, as the government competes for the same domestic financial capital, leading to appreciated real exchange rates and interest rates. During the 2001/02 fiscal year although the government’s tax revenue as a percentage of GDP improved, the improvement was not substantial enough to prevent the fiscal deficit from worsening. The overall budget deficit rose to 5.1 per cent of GDP from 2.2 per cent of GDP in the previous year. Consequently, the primary balance also worsened to a deficit of 3.7 per cent of GDP in 2001/02 from the deficit of 1 per cent of GDP the previous year. The outlook on the budget situation is a contraction in the overall deficit to an estimated 1 per cent of GDP in 2002/03, with the primary balance also improving to an estimated small surplus of 0.3 per cent of GDP.

In recent times, the underlying feature of the government’s fiscal performance, on the revenue side,

has been the rather low revenue base, which continued in 2001/02. During 2001/02, tax revenue increased to 10.8 per cent of GDP from 10.4 per cent of GDP the previous year. The increase was, however, largely due to the inclusion of non-tax revenue collected by government departments in the revenue of 2001/02, which was not the case in 2000/01 prior to the abolition of the appropriation in aid provision, which had allowed government departments to retain their non-tax revenue to finance expenditure. The domestic tax effort in 2001/02 remained generally lower. In those taxes where the yield was higher, such as in income tax, this was mainly to the result of significant increases in wage rates of civil servants and the elastic nature of the tax, rather than any expansion in the tax base. Tax revenues from other sources such as import duty were poorer in 2001/02 owing to the failure of the government to realise efficiency gains in collection as well as from the appreciation of the Ugandan shilling. Similarly revenue from fuel duty, which contributes about 20 per cent of total revenue, was poorer in 2001/02 as the tax rate had been specific and constant for four years without any adjustment for inflation. This situation was rectified in the 2002/03 Budget, which pushed up the specific rate on petrol by 5 per cent to make up for loss in real value of the rate since 1998.

On the expenditure side, Uganda has maintained an increased expenditure programme for its Poverty Action Fund (PAF). In 2001/02, PAF spending within the domestic budget rose to 32.7 per cent from 28.7 per cent the previous year. This success in maintaining increased expenditure for poverty alleviation has been made possible through continued reduction in defence expenditure from 22.5 per cent of GDP in 1999/00 to 17.3 per cent of GDP in 2001/02. All other items of government expenditure increased in 2001/02 over the previous year. Interest payments on both external debt and domestic debt increased in 2001/02, the latter because the entire fiscal deficit in 2001/02 was financed by donor funds, and the large increase in treasury bill issuance in response, to absorb the liquidity generated by government spending of the donor funds. Wages and salaries increased as a result of salary increases to civil servants.

Table 2 - Public Finances^a (percentage of GDP)

	1994/95	1998/99	1999/2000	2000/01	2001/02(e)	2002/03(p)
Total Revenue and grants^b	14.1	16.8	17.2	19.3	19.3	19.6
Tax revenue	9.0	11.0	10.5	10.3	10.9	11.3
Grants	4.4	5.0	5.8	8.4	7.5	7.7
Total expenditure and net lending^b	16.7	19.5	27.0	21.5	24.4	20.6
Current expenditure	9.2	12.2	13.7	12.7	14.9	12.8
<i>excluding interest</i>	8.2	11.2	12.6	11.5	13.5	11.5
Wages and salaries	2.5	4.2	4.3	4.4	5.2	4.3
Interest on public debt	1.0	0.9	1.1	1.3	1.4	1.3
Capital expenditure	7.3	7.3	8.8	9.0	9.5	7.8
Primary balance	-1.6	-1.8	-8.7	-1.0	-3.7	0.3
Overall balance	-2.6	-2.7	-9.8	-2.2	-5.1	- 1.0

Notes: a. Fiscal year begins 1 July.

b. Only major items reported.

Source: Authors' estimates based on domestic authorities' data.

Since the start of the 2002/03 fiscal year, the government has renewed its commitment to improving fiscal discipline at both the budget planning and execution stages. Towards this end, the Public Finance and Accountability Bill 2002 is being considered by parliament to replace the 1964 Public Finance Act. A major feature of the bill that may help stem the tide of the ever-increasing budget deficit, is the requirement that all proposed supplementary expenditure must be approved by Parliament.

Monetary policy management in Uganda during 2001/02 continued to emphasise price stability and the minimisation of volatility in interest rates and the exchange rate of the shilling. This policy stance was in the light of the challenges emanating from deterioration in the terms of trade and from increased liquidity as a result of government spending of donor funds. Treasury bills continued to be the key tool of conducting monetary policy with increased prominence of the REPO.

Broad money supply grew by 11.3 per cent in the first three quarters of 2001/02, to follow the 17.6 per cent growth during the financial year ending June 2001. The slowdown in the growth of monetary aggregates during the early part of 2001/02 was reflected in a slower growth of total deposits of the non-bank public with commercial banks by 10.6 per cent compared to the growth of 13.2 per cent observed

in the corresponding period a year earlier. The slower growth in total deposits was due in part to slower growth in foreign currency deposits, which reflected increased confidence in domestic assets in the economy.

Due in part to the slowdown in monetary expansion, inflationary pressure in the Ugandan economy was generally subdued in 2001/02. The major factor behind the slowdown in inflation, however, has been increased availability of food, and a consequent sharp drop in food crop prices. During 2001/02, the annual rate of inflation fell to 4.6 per cent from 6.3 per cent the year before. The outlook on inflation is a further decline to an estimated 1 per cent in 2002/03. The rate of inflation is projected to pick up to 3.1 per cent in 2003/04.

In response to the tighter liquidity conditions, money market rates increased initially and thereafter gradually declined during 2001/02. The weighted monthly average annual discount rate on the 91-day treasury bill that was 6 per cent in June 2001 increased to 13.6 per cent in August 2001 before declining to 4.7 per cent in April 2002. Just as the discount rates on the treasury bills market trended downwards, the weighted inter-bank money market rates over the year dropped from 11 per cent in August 2001 to 3 per cent in May 2002. Similarly, the base lending rates of commercial banks have continued to decline: as an indication, the number of commercial banks whose

prime lending rate is less than 14 per cent has increased from zero in December 2001 to 5 in May 2002; and the prime lending rate of all banks was less than 18 per cent during 2001/02. The decline in the lending rates of the commercial banks is explained in part by the decline in the rates on treasury bills as well as by the increased competition in the financial sector.

In the foreign exchange market, since July 2001, commercial banks in Uganda have been connected to the Reuters Uganda Investment Services Market Information in response to BOU directive. This has improved information flow in the inter-bank foreign exchange market, by contributing to real time display of quotes in the inter-bank foreign exchange market. The Ugandan shilling has maintained relative stability since 2000/01. During the year ending April 2002, the shilling depreciated against the dollar by only 1 per cent, with spreads exhibiting a declining trend. Over the same period, the nominal effective exchange rate (NEER) appreciated by 1 per cent while the real effective exchange rate (REER) depreciated by 1.9 per cent. The depreciation of the REER was largely on account of the price differentials between Uganda and its major trading partners, with the rate of inflation declining much faster in Uganda.

External Position

Uganda maintains a policy of liberalised external trade and at the start of 2002 had reduced its tariffs by 80 per cent in line with the principle of promoting trade liberalisation. Uganda also continues to support initiatives aimed at strengthening regional integration. It has been an active member of Common Market for Eastern and Southern Africa (COMESA). However, Uganda has not joined the Free Trade Area (FTA) of zero tariffs on goods produced in COMESA member states; it is awaiting its own study to assess the implications for Uganda moving to zero tariffs within COMESA.

Uganda's external sector continued to suffer from deterioration in the terms of trade arising from the continual fall in the international coffee price. In 2001, the trade deficit widened to 10.1 per cent of GDP

from 9.2 per cent of GDP the previous year, as exports stagnated mainly on account of the decline in international prices of most of Uganda's export commodities. The outlook on the external position is further deterioration in the trade deficit, estimated at 10.5 per cent of GDP in 2002 and projected at 11 per cent of GDP in 2003. In 2001, coffee receipts suffered an estimated 23.4 per cent decline during 2001 on account of a 28.1 per cent fall in prices, despite a 6.7 per cent increase in volume. The volume of cotton exports increased by 75.4 per cent in 2001 although the value of exports increased by only 20.2 per cent due to a decline in prices by 31 per cent. Also, a massive decline in the price of tea by about 30 per cent during 2001 led to a decline in tea export receipts, for the first time in four years. Similarly, maize exports nearly quadrupled following large shipments to Zambia and Zimbabwe in response to the drought conditions in that region. However, the realised unit value of maize exports fell by about 38.1 per cent. Exceptionally, fish exports increased from \$50.11 million in 2000 to \$87.45 million in 2001 reflecting price increase of 31.6 per cent and volume growth of 32.4 per cent. Total imports increased by 13.6 per cent from \$1.65 billion in 2000 to \$1.818 billion in 2001. The increase mainly reflected private sector imports. Current transfers rose significantly from \$927.9 million in 2000 to \$1 214.2 million in 2001 due to a 60.6 per cent increase in private transfers. With the increase in imports outweighing the increase in current transfers, and with the stagnation in exports the country's current account deficit widened to \$488.2 million representing 4.1 per cent of GDP, from \$452 million (3.9 per cent of GDP) in the previous year.

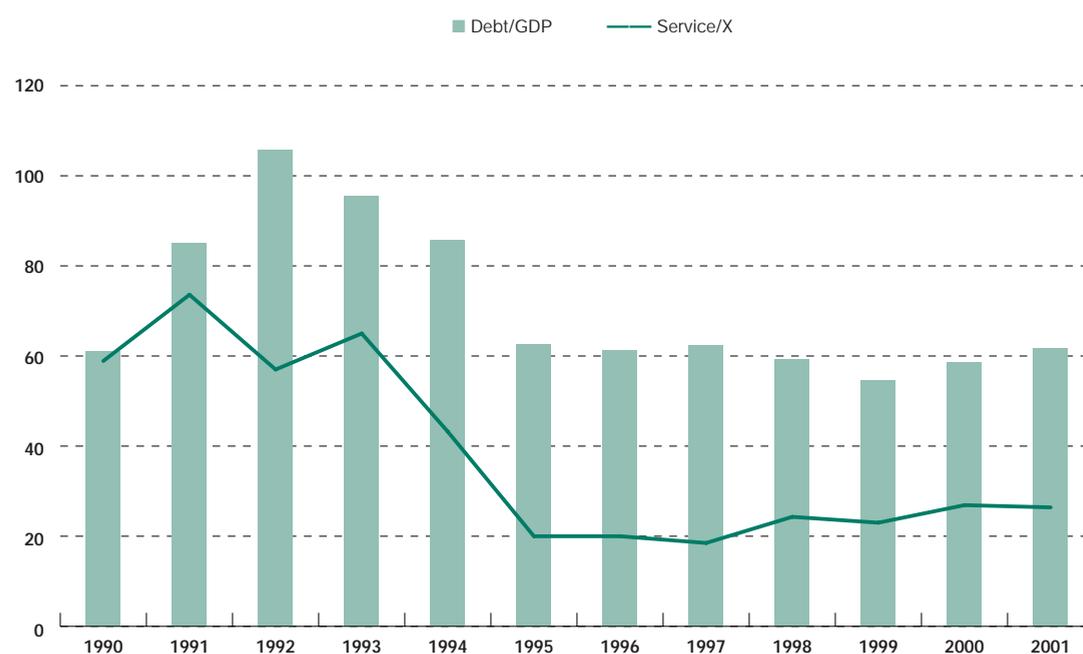
Uganda's stock of external debt at end of financial year 2001, stood at \$3.628 billion compared with \$3.310 billion at end of the previous financial year. The debt structure indicates that multilateral creditors accounted for 72 per cent of the total debt, bilateral creditors for 26 per cent, and private creditors for the remaining 2 per cent. While the Ugandan finance ministry contends that the country's foreign debt was "unsustainable" five years after applying the HIPC policy, available data indicate that the disbursement of resources from the enhanced HIPC

Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002(e)	2003(p)
Trade balance	-10.3	-8.4	-9.2	10.1	-10.5	-11.0
Exports of goods (f.o.b.)	-10.8	8.3	7.8	7.8	7.9	8.2
Imports of goods (f.o.b.)	21.1	-16.7	-17.0	-18.0	-18.4	-19.2
Services balance	-4.3	-4.2	-3.6	-5.2		
Factor income	-1.4	-0.3	-0.2	-0.4		
Current transfers	11.7	9.2	9.1	11.6		
Current account balance	-4.3	-3.7	-3.9	-4.1		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank.

debt relief initiative has contributed significantly to improving Uganda's external debt sustainability indicators, which could have worsened during the year due to the poor performance of the export sector. Uganda's total payments on medium and long-term public and publicly guaranteed debt during 2001 amounted to \$143.3 million. Out of this total debt service, \$70.75 million was financed using the HIPC initiative. Consequently, the ratio of debt service (including IMF payments and debt paid through HIPC) to export of goods and non-factor services is estimated at 25.7 per cent, lower than the 26.6 per

cent of the previous year. Similarly, the debt stock to GDP ratio, at an estimated 61.7 per cent at end-2001, was lower than the 63 per cent recorded in the previous year.

Structural Issues

The Ugandan government is pursuing structural transformation of the economy through its Medium-Term Competitiveness Strategy for the Private Sector (MTCS) (2000-2005), which aims at eliminating barriers

to private sector growth and increasing the efficiency of both public and private investment. The strategy is pursuing reforms in six key areas, namely, infrastructure provision, strengthening the financial sector and improving access to credit, strengthening the commercial justice sector, institutional reforms for promotion of business growth, promotion of exports, and improving the business environment for micro and small enterprises. In 2001/02, considerable progress was registered towards the implementation of the strategy.

Uganda started its privatisation programme initially in 1992, with the objective of creating a favourable environment for increased private investment. However, the lack of a specific law to govern the exercise at the time created legal problems for the government, which subsequently in 1993 enacted the Public Enterprises Reform and Divestiture Statute and established the Divestiture and Reform Implementation Committee to run the process. Due to administrative difficulties, the programme was suspended in early 1995 to be re-activated later in the year. Since the re-activated programme commenced, 155 public enterprises have been put on the divestiture list. As at June 2002, 74 divestitures have been completed, and 34 enterprises have been liquidated. As in other sub-Saharan countries, Uganda's privatisation programme has been dogged by lack of transparency and corruption as well as a variety of other problems. These include valuation problems, as was the case with African Textile Miller, Kakira Sugar Works Ltd. and Associated Match Company; low offers, which resulted in public outcry as occurred with Nyanza Textile Industries Ltd., Uganda Grain Milling Company and Uganda Consolidated Properties. In 2000/01, the government committed itself to a renewed and transparent process. Uganda Commercial Bank Ltd. (UCBL), which had been under the statutory management of the BOU since April 1999, was privatised with a strategic investor, Stanbic Uganda Ltd. Also, in 2001/02, the government took steps to restructure Uganda's energy base, characterised by over dependence on traditional and imported energy forms. In the power sector, the government pursued its privatisation of Uganda Electricity Board (UEB). A number of activities were completed in 2001/02 with

respect to the privatisation of UEB. These activities included inventory and valuation of UEB assets and liabilities; distribution and transmission investment needs analysis; drafting of licenses, regulations, concessions and power sale agreements; financial and tariff modelling and unbundling of UEB into three companies. Since the beginning of 2002/03, an independent power regulator, the Electricity Regulatory Authority has been put into operation. The government also began the concession of Uganda Electricity Generation Company, Uganda Electricity Distribution Company and the successor of Uganda Railway Company to private investors. Preparations also started in 2002/03 for private sector participation in water delivery in urban towns; in 2002/03, it is expected that water systems in 33 urban towns will be privatised under an operating lease.

The transformation of the economy continued in 2001 with other remedial works. In the power sector, repair works of Owen Falls Dam were finalised, installation of the 3rd Unit of Kiira Power Plant was accomplished and funding for the 4th and 5th Units of Kiira Power Plant was also secured. The government also took decisive steps towards the construction of Bujagali Hydropower Dam Project (AES Nile Power) with the approval of loan financing by the World Bank. Land resettlement and compensation was completed and transmission line routing and preliminary construction work embarked upon. Under its first Rural Electrification (RE) Strategy and Plan (2001-2010), the government completed 106 schemes out of 192 designed schemes. A power Export Sales Agreement with Kenya was also concluded during the year. The government took steps in 2001/02 to promote petroleum exploration and development in Uganda. Following the finalisation of seismic surveys in Semliki Basin (Exploration Area 3), drilling operations are expected to commence in 2002/03. The government completed negotiations for re-licensing Exploration Area 2 and signed a Production Sharing Agreement (PSA) in October 2001 with a consortium of Australian and South African companies. In addition, geological and geophysical surveys of Exploration Area 1 were completed and the data being used to promote the Area for licensing.

The government continues to place emphasis on its financial sector reforms. During 2001/02 several measures were implemented towards strengthening the financial sector and increasing access to financial services. The government also completed the restructuring of Uganda Development Bank (UDB) to enable it to provide medium and long-term finance. In its efforts to ensure that insurance companies are financially sound and are able to comply with the insurance statutes, the government revoked the licenses of two local companies for failure to meet the minimum statutory paid-up capital. In 2001 the draft Financial Institutions Bill (FIB 2001), was proposed by the government after extensive consultations with stakeholders, especially in the banking industry. The bill, currently before Parliament, updates Uganda's banking legislation to international best practices as set out in the Basle Core principles for Effective Banking Supervision. Similarly, the government proposed the Micro Deposit Taking Institutions (MDI) Bill to regulate micro deposit taking institutions. The Bill, also before parliament, allows micro-finance institutions that are performing well to mobilise savings from the public for purposes of on lending.

Uganda carried out in 2001/02 a number of institutional reforms for promoting business growth. The government merged the key investment and trade promotional bodies namely, the Uganda Investment Authority, Uganda Export Promotion Board, and the Uganda Tourism Board in an effort to cut red tape and promote value for money. Similarly, a number of measures were taken to reduce the regulatory and administrative burdens on business. These measures included reform of the business licensing system at both central and local government levels; improvement of the tax appeals process; supporting the introduction of appropriate labour legislation; and altering the tax treatment of financial leasing.

Political and Social Context

Uganda's democracy deepened in 2001 as the government took several steps to improve its ways of exercising political, administrative, and managerial

authority and protection of the basic rights of citizens. The reforms and actions undertaken during 2001/02 include:

- *Public Sector Financial Strengthening*: A new post of Accountant General was created to be responsible for government accounting system.
- *Pay Reform*: A draft pay policy principles were proposed to restore and preserve the purchasing power of public sector pay; to minimise distortions arising from select pay awards; and to achieve market-benchmarked pay targets for managerial, technical and professional cadres.
- *Pay Roll Management*: The average time needed to access the health and education payroll was reduced from seven months to one month, while the education pay roll was fully decentralised.
- *Public Procurement reform*: the government decentralised procurement to line ministries from the central tender board in the effort to address corruption in tender awards and improve efficiency.
- *Decentralisation*: In response to concerns about poor programme implementation within local governments, which was partially a result of weak linkages between the central and local governments, a fiscal decentralisation strategy was finalised to improve efficiency of the fiscal transfer process.
- *Legal and Judicial reform*: The government embarked on a programme to reform the Justice, law and order sector with support from several development partners.

While these reforms are expected to improve governance in Uganda, the government has taken extra measures aimed at minimising corruption, which continues to hold sway in the economy. The Inspectorate of Government (IGG) Bill and the Leadership Code Bill were enacted into law during 2001/02. The Leadership Code provides avenues for citizens to access leaders' asset declaration. It also provides for sanctions for non-compliance including disqualification from office.

Uganda's security situation showed signs of improving in 2001/02. As a result of government

intervention, peace is returning to the North and Western parts of the country that have for the last few years been affected by rebel activity. Within the umbrella of an amnesty law, several former rebels have surrendered to the authorities. The government is currently implementing a disarmament programme in Karamoja. However, some conflict situations still remain in the country. Owing to internal security problems, about 600 000 people are now estimated to be living in protected camps around the country.

Uganda's recent strong growth performance is beginning to make a positive impression on the poverty situation of the country. According to the government's household surveys, the proportion of the population living below the poverty line of \$1 per day has declined from 56 per cent in 1992 to 44 per cent in 1997, and further down to 35 per cent in 2001. The government has formulated a Poverty Eradication Action Plan (PEAP), which seeks to increase the incomes of Ugandans and is based on four pillars: through the creation of jobs as a result of enhanced productivity and economic growth; through security and good governance; measures to increase incomes of the people; and measures to improve the quality of life for the poor. The government continues to make progress towards sustainable growth and structural transformation, as well as improve security and governance in the country. Through the PMA, Uganda has also made progress on several fronts to increase access by the poor to productive assets and increase returns on them. Some of the modalities used include the use of grants to purchase improved inputs, improving rural infrastructure and linking national research to farmers. Towards the goal of improving the quality of life of Ugandans, the government accords budget priority status to social services such as education and health.

In the health sector the government continues to implement the Health Sector Strategic Plan (HSSP), now in its second year. During 2001/02, the sector registered both quantitative and qualitative progress. Uganda achieved considerable progress in some key health indicators. Most notably, the HIV prevalence rate continued to fall from 6.9 per cent in 1999/00 to 6.1 per cent in 2001/02, making Uganda one of the

few African countries that have actually managed to bring down prevalence rates. Condom promotion was a key element in the STD/AIDS control programme. In 2000/01 up to 60 million condoms were distributed by the government, social marketing groups and the private sector. The government has continued with efforts to expand the provision of Anti-Retroviral Drugs (ARVs) and achieved a dramatic reduction in the price of ARVs through consultation with pharmaceutical companies. During 2001/02, the government successfully completed a number of policy initiatives including strategies for public-private partnership, in-service training, and the introduction of the National Pharmaceutical Sector and Health Financing. The government abolished user charges in government health units all over the country, while allowing for two lines of service in government hospitals (paying and non-paying). The policy revealed a previously unsatisfied demand for health care in Uganda, with an increase in patients seeking treatment in government hospitals. Consequently, increased pressure was put on the health service supply with frequent drug stock outs throughout the system. Uganda's health status indicators, however, continue to reveal some worrying trends. Statistics from the recent UDHS (2000-01) reveal that infant, child and maternity mortality rates have remained stagnant for a number of years and are failing to improve. Infant mortality has remained high and constant over the past 15 years and currently stands at 88 deaths per 1 000 live births. Under-five mortality rates are high at 152 deaths per 1 000 live births. Finally, there has been no change in maternal mortality rates since 1995 with 505 deaths per 100 000 live births.

The Uganda government education policy is focused on Universal Primary Education (UPE). Achievements for primary education over 2001/02 are reflected by a number of performance indicators. The net primary enrolment rate continues to improve from 83 per cent in 1998 to 94 per cent in 2001. The primary school completion rate, which stood at 40 per cent in 1998, has improved to 45 per cent in 2001. In addition, the pupil-teacher ratio improved from 65:1 to 58:1 from 2000 to October 2001. This is attributed to a recruitment drive for teachers undertaken by the government since May 2000, which



led to an additional 15 361 teachers accessing the payroll by June 2001. The government also recruited and enrolled 3 000 unqualified teachers in a three-year in-service training programme. In addition, the government approved incentives aimed at attracting teachers to remote areas. The pupil-classroom ratio has similarly improved from 106:1 in 2000 to 98:1 by October 2001. This is attributed to strong budget support for classroom construction. Nonetheless, the

educational system continues to experience major concerns including the number of pupil dropouts. The dropout rates in primary schools are reported at 6.6 per cent for boys and girls. For pupils who drop out permanently, about 75 per cent are said to cite “lack of money” as being responsible, according to the National Service Delivery Survey. Other factors include poor health (6.2 per cent), pregnancy (5.2 per cent) and marriage (5.8 per cent).