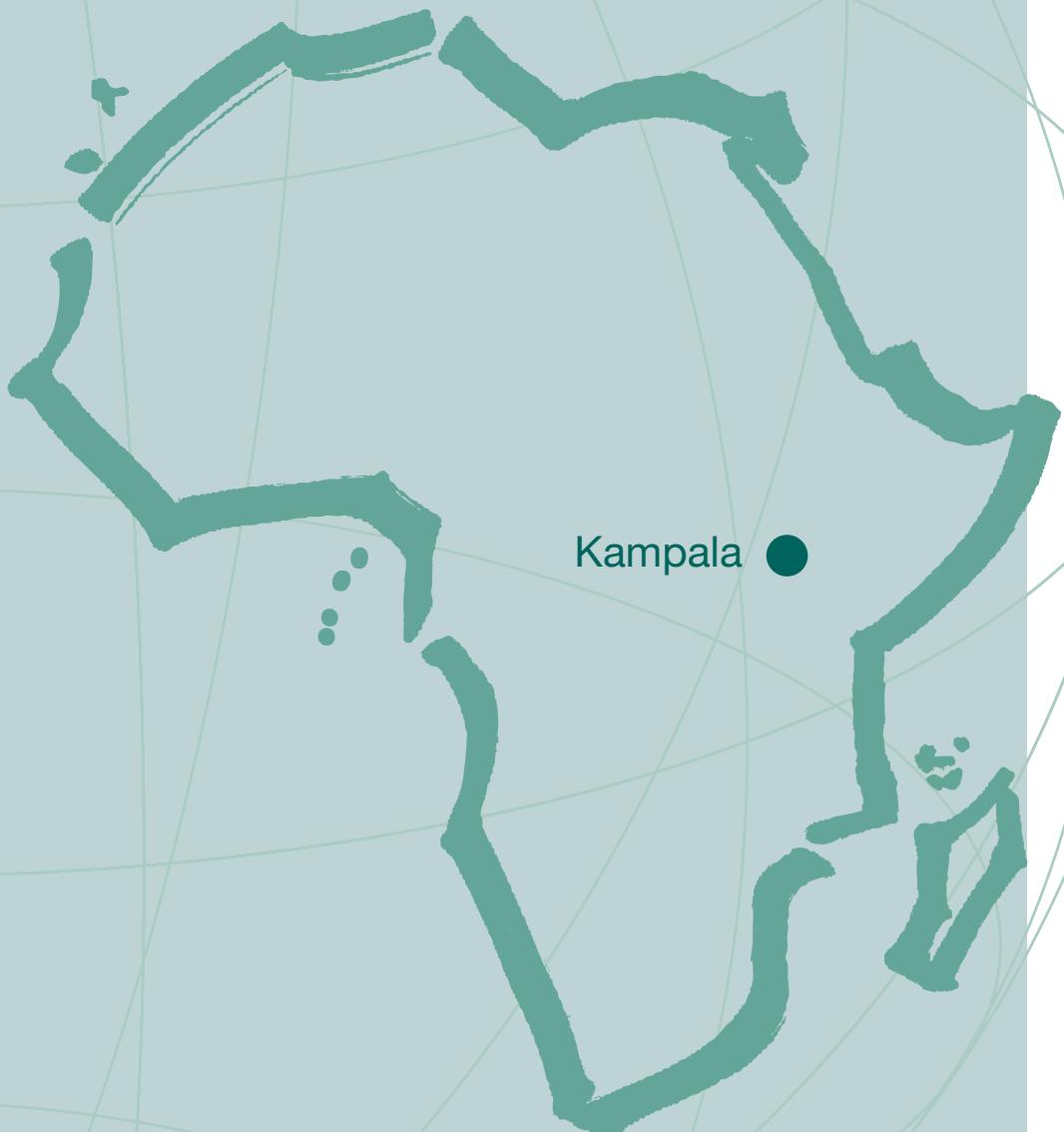


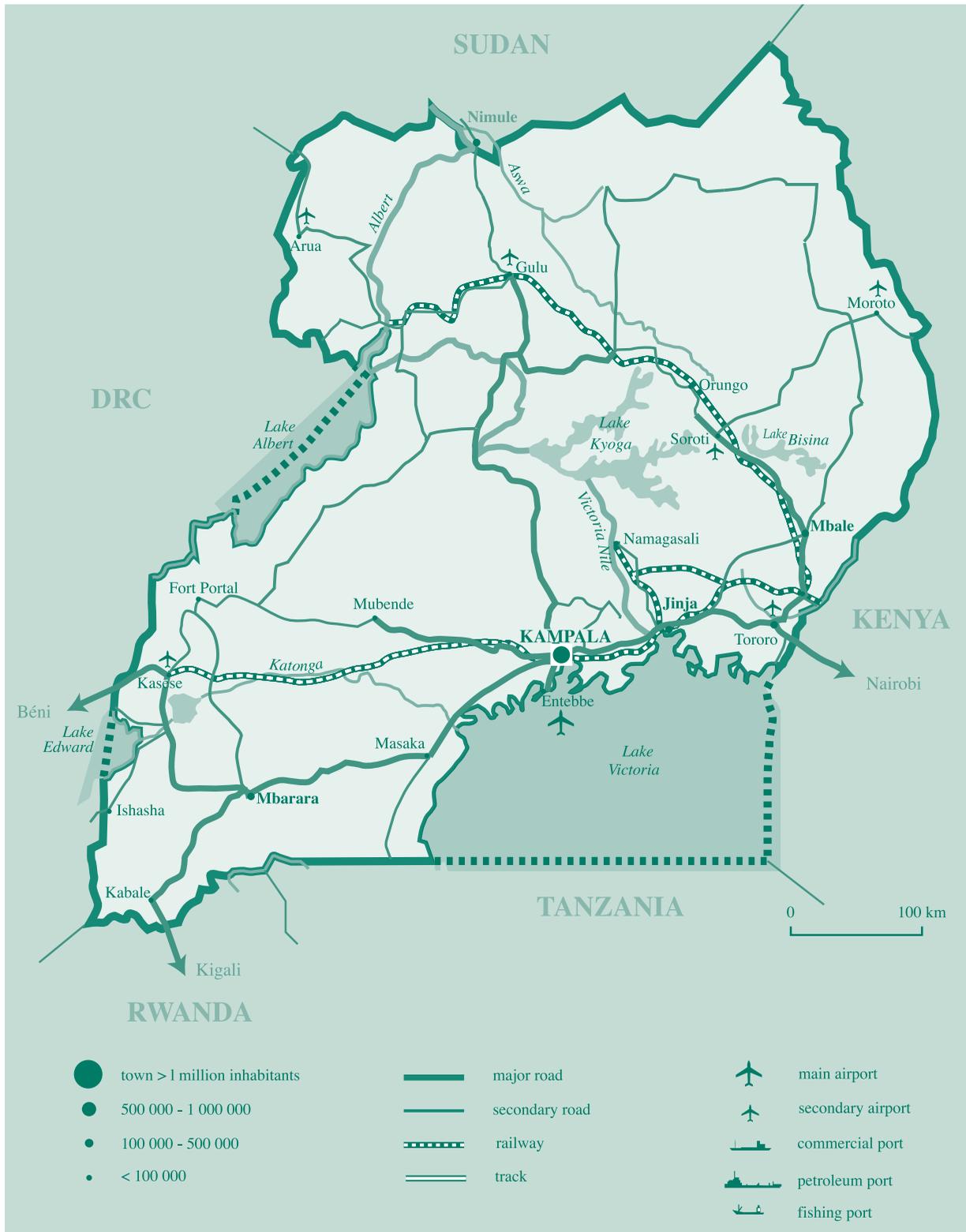
Uganda



Kampala ●

key figures	
• Land area, thousands of km ²	241
• Population, thousands (2006)	29 857
• GDP per capita, \$ PPP valuation (2005/06)	1 562
• Life expectancy (2006)	51.1
• Illiteracy rate (2006)	33.2

Uganda



Uganda

UGANDA CONTINUES TO MAINTAIN its standing as one of East Africa's relatively successful economies, combining low inflation with high economic growth. This was achieved in spite of the slowdown in the fiscal year 2005/06, when real GDP grew by 5.3 per cent, compared with 6.7 per cent in 2004/05. The slowdown is largely attributable to the prolonged drought, which affected agricultural production and reduced hydro-electricity output, with negative effects on manufacturing. In the absence of continued drought, real GDP is projected to bounce back to 6 per cent in 2006/07, which is still short of the target growth rate of 7 per cent.

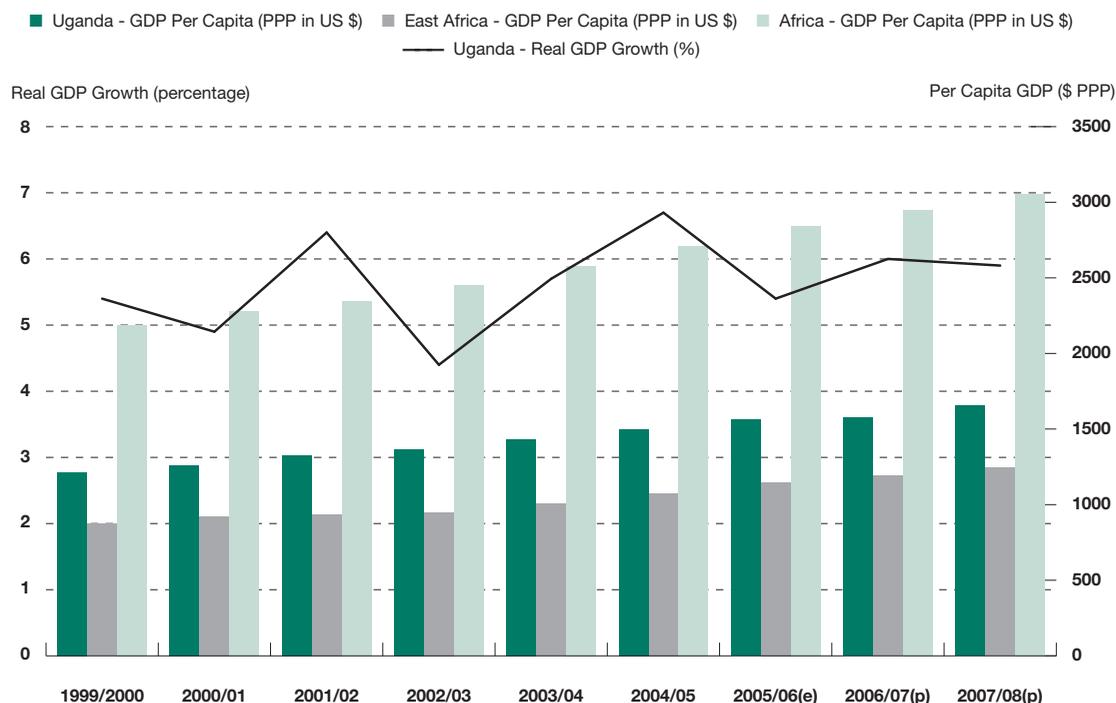
As has been the case in the past few years, sound macroeconomic management and pro-market reforms,

supported by large inflows of official development assistance (ODA), helped to sustain growth. Indeed, the outcomes of the March 2006 general elections eased the political uncertainty in the country, leading to the resumption of ODA from international donors.

Sound macroeconomic management and pro-market reforms, plus substantial ODA, helped sustain growth, though governance problems, including corruption, are resurfacing.

The 2006 elections, which were the first multiparty parliamentary and presidential elections in Uganda in 25 years, saw President Yoweri Museveni and his party remain in power. Although the elections were preceded by a volatile campaign period, Uganda's political climate is now stabilising. However, the security situation in northern and western Uganda remains a source of concern.

Figure 1 - Real GDP Growth and Per Capita GDP
(\$ PPP at current prices)



Source: IMF and local authorities' data; estimates (e) and (p) projections based on authors' calculations.

<http://dx.doi.org/10.1787/052444120611>

In spite of these security concerns, progress has been made towards improving economic wellbeing, as demonstrated by increased per capita income, better health services, including a huge reduction in HIV/AIDS infection rates, higher literacy rates and increased life expectancy. However, poverty and inequality appear to be increasing. Recent surveys indicate that the level of corruption remains high, but the government is taking appropriate measures to improve governance.

Recent Economic Developments

The Ugandan economy has continued to grow rapidly in recent years. Real GDP growth in the 2005/06 fiscal year was close to the 5.5 per cent average recorded over the past six years. Growth in 2005/06 was largely driven by the strong performance of the services sector, which grew at 9.2 per cent, up from 8.7 per cent in 2005, led by road transport, telecommunications, financial services, tourism and air travel. Telecommunications has been the fastest growing sub-sector as a result of substantial increases in the number of mobile phone subscribers, largely the consequence of an ineffective telecommunications infrastructure in terms of land lines.

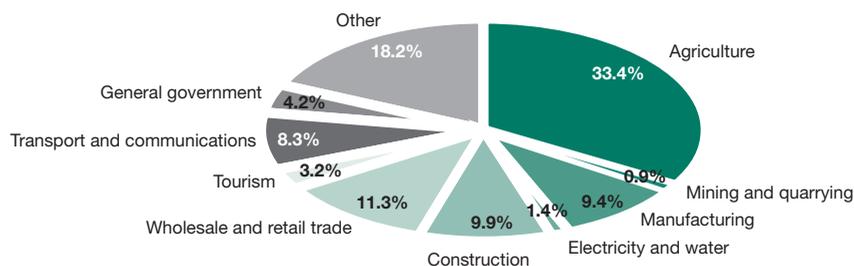
The prolonged drought conditions in most parts of the country adversely affected the performance of the agricultural sector, reducing its growth rate to only 0.4 per cent – the lowest annual growth in agriculture since 1991/92. The declining trend in the growth rate of agricultural production could act as an obstacle to

poverty reduction efforts as income and asset inequality widens. But recently improved weather has brightened prospects for agriculture, although the outbreak of foot and mouth disease in cattle highlights the continuing problem of crop and livestock diseases.

In the case of industrial production, electricity shortages led to a sharp deceleration of growth from 10.8 per cent in 2004/05 to 4.5 per cent in 2005/06. Power outages led to production cuts and 24-hour shift work patterns, or to the use of diesel generators, which have substantially increased costs of production. High oil prices combined with low prices for Uganda's commodity exports also adversely impacted economic performance. On the other hand, the recent discovery of oil reserves in the country has generated optimism.

The services sector's share of GDP rose steadily from over 41 per cent in 2000/01 to nearly 46 per cent in 2005/06. In contrast, agriculture, which had accounted for the bulk of domestic output during the past four decades, saw its share decline from 40 per cent in 2000/01 to 33.4 per cent in 2005/06. The share of industry has remained steady at around 20 per cent over the past five years. Agriculture, which provides food security and supports rural livelihoods, is constrained by heavy concentration on low-value crops and limited processing of raw produce. In addition, agriculture is constrained by limited access to support services such as crop and veterinary extension services and food processing technology; inadequate infrastructure (e.g. transport, electricity and water); lack of market information; and proliferation of local taxes.

Figure 2 - GDP by Sector in 2005/06 (percentage)



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

<http://dx.doi.org/10.1787/302741068763>

Table 1 - Demand Composition (percentage of GDP)

	1997/98	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
	Percentage of GDP (current prices)		Percentage changes, volume		
Gross capital formation	16.2	24.9	20.1	11.8	10.7
Public	4.8	5.0	11.9	11.7	7.8
Private	11.3	19.9	22.4	11.8	11.4
Consumption	94.3	92.1	6.5	4.9	5.1
Public	12.9	14.4	9.6	3.1	3.1
Private	81.4	77.6	5.0	5.1	5.4
External sector	-10.5	-17.0			
Exports	9.9	13.8	1.8	3.2	3.4
Imports	-20.4	-30.7	13.6	6.8	6.6

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

<http://dx.doi.org/10.1787/033627865084>

Recent growth has been led by private investment, which accounted for nearly 20 per cent of GDP in 2004/05 (Table 1). Much of the increase in private investment in Uganda is in industrial and residential construction. The share of private investment in construction nearly doubled from 8.8 per cent of GDP in 2000/01 to 15 per cent of GDP in 2005/06.

Following the successful completion of an IMF Poverty Reduction and Growth Facility (PRGF) programme in January 2006, the Ugandan government has recently agreed to a three year Policy Support Instrument (PSI) programme, whereby the IMF provides surveillance and technical assistance, but no funding. The PSI will monitor progress towards achieving the goals set forth in the Poverty Eradication Plan (PEAP) — usually known in other countries as a Poverty Reduction Strategy Paper (PRSP).

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Macroeconomic Policies

Macroeconomic policies in Uganda have three key objectives: *i*) low inflation and stable interest and exchange rates; *ii*) increasing credit to the private sector; and *iii*) enhancing the international competitiveness of exports.

Fiscal Policy

The Ugandan government has over the years succeeded in maintaining prudent fiscal policies. But the overall management of the budget is threatened by

Table 2 - Public Finances (percentage of GDP)

	1997/98	2002/03	2003/04	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
Total revenue and grants^a	15.8	19.1	22.3	20.9	19.7	18.6	17.7
Tax revenue	10.0	11.2	12.0	12.1	12.6	12.6	12.6
Grants	5.3	7.0	9.6	8.3	6.5	5.5	4.5
Total expenditure and net lending^a	16.3	23.5	23.8	21.6	21.8	21.8	21.8
Current expenditure	9.6	13.9	14.7	13.5	13.3	12.7	12.6
Excluding interest	8.6	12.5	12.7	12.0	11.9	11.4	11.0
Wages and salaries	3.4	5.2	5.2	5.1	5.1	5.0	4.9
Interest	1.0	1.5	2.0	1.6	1.5	1.3	1.5
Capital expenditure	6.6	9.7	9.0	8.1	8.6	9.2	9.3
Primary balance	0.5	-2.9	0.5	0.9	-0.7	-1.8	-2.6
Overall balance	-0.5	-4.4	-1.5	-0.7	-2.1	-3.1	-4.1

a. Only major items are reported.

Source: Domestic authorities' data, estimates (e) and projections (p) based on authors' calculations.

<http://dx.doi.org/10.1787/017782237343>

periodic pressures for supplementary expenditures and higher domestic interest costs. The overall fiscal balance, excluding grants, improved marginally in 2005/06, with the budget deficit declining to 9.2 per cent of GDP, down from 9.9 per cent of GDP in the preceding year. This improvement in the fiscal balance is consistent with the policy of achieving gradual reductions in budget deficits over the medium term. However, if grants are included, the fiscal deficit increased from 0.7 per cent of GDP in 2004/05 to 2.1 per cent of GDP in 2005/06 (Table 2). The outlook for 2007 and 2008 was for a further deterioration in the fiscal position as a result of exhaustion of domestic sources of revenue.

The government's commitment to increasing the share of the national budget funded through domestic resources has been made more difficult by the implementation of the East Africa Customs Union, which came into force in January 2005. The drop in tariffs accompanying the customs union reduced customs revenue by over 80 billion Ugandan shillings in 2005/06, and further losses are expected in 2006/07.

Monetary Policy

One of the primary objectives of monetary policy in Uganda is to contain inflation below 5 per cent and progress has been made towards achieving this objective over the past few years. The Bank of Uganda (BoU) also conducts monetary operations with a view to minimising instability in the money and foreign exchange markets¹. Sterilised intervention is practised through a combination of sales of treasury bonds, treasury bills and foreign exchange. The BoU also uses repos (repurchase agreements) as an instrument to smooth out unexpected liquidity in the short run. The BoU also makes use of rediscount rate and bank rate adjustments.

In 2006 the broad money supply, M2, grew by 10.3 per cent, below the 13.8 per cent recorded in 2005, due mainly to the sterilisation of excess liquidity. However, a major issue confronting the monetary

authorities is how to alleviate the impact of liquidity sterilisation on the exchange rate of the shilling and on export competitiveness.

The average rate of inflation for 2005/06 was 5.3 per cent, marginally higher than the target rate of 5 per cent, largely because of the effects of the continued rise in the world price of oil on petrol pump prices and transport fares. The BoU's tight monetary policy has succeeded in containing the inflationary pressures to the point where underlying inflation in 2005/06, at 4.4 per cent, was much lower than the 6.4 per cent recorded in 2004/05.

A noteworthy recent development is the convergence between the 'headline' inflation and the 'underlying' inflation rates. While underlying inflation hovered around 4 to 6 per cent between April 2005 and September 2006, headline inflation declined from 12 per cent to 6 per cent during the same period. This significant decline in the headline inflation rate is largely the consequence of a decline in food crop prices, which more than offset the increase in prices of other goods and services in the consumer basket. The decline in food crop prices can be attributed to increased supplies thanks to improved weather conditions in most food crop growing areas.

Interest rates in 2005/06 were generally lower than in the preceding year. For example, the yield on the three-year bond fell from 15.5 per cent in June 2005 to 13.5 per cent in March 2006. Similarly, the effective yields on the 91-day, 182-day, and 364-day treasury bills in April 2006 averaged 7.9 per cent, 8.4 per cent and 10 per cent respectively, all lower than the corresponding rates in the same period in 2005. The government expects that its comprehensive strategy for domestic debt management will make possible a reduction in interest costs.

By contrast, the weighted average lending rates of commercial banks in Uganda remained high throughout

1. Bank of Uganda Monthly Economic Report, September 2006.

2005/06. The government has cited the following factors for such an outcome in the banking sector²: *i*) the large size of the government's fiscal deficit, which gives commercial banks the option to invest in low-risk government securities rather than lend to the private sector; *ii*) the perceived high risk of lending to the private sector, especially agriculture, and the absence of a credit reference bureau; *iii*) lack of competition and dynamism among commercial banks which are content with servicing stable 'niche' market segments; and *iv*) high operating costs from modernisation, expanding outreach and the low income base of customers.

Uganda operates a flexible exchange rate policy, with the Ugandan shilling allowed to fluctuate freely in line with economic fundamentals. However, where necessary the BoU intervenes to smooth short-run volatility. The Uganda shilling depreciated 4.8 per cent from June 2005 to March 2006. The depreciation was largely caused by strong corporate demand for dollars. This prompted the BoU to intervene in the foreign exchange market to restore stability.

External Position

Uganda's external position is healthy. The overall balance of payments (BoP) in 2005/06 registered a surplus of \$235 million, similar to that recorded in the previous fiscal year. The BoP surplus was largely a result of the favourable capital account balance, which helped to offset the current account deficit. Indeed, the capital account balance surplus increased from \$369 million in 2004/05 to \$452 million in 2005/06. Much of the

capital account surplus can be attributed to higher inflows of foreign direct investment (FDI), which increased to \$260 million in 2005/06, up from \$245 million in the previous fiscal year.

In contrast, the current account balance has consistently recorded a deficit. In 2005/06, the deficit including grants increased to \$218 million (2.8 per cent of GDP), up from \$134 million (1.5 per cent of GDP) in the previous fiscal year, moving closer to the sustainability threshold of 5 per cent. However, if official grants are excluded, the current account deficit in 2005/06, at 6.8 per cent of GDP (Table 3), may be unsustainable.

Developments in the current account balance largely reflect fluctuations in merchandise trade, which have been characterised by widening deficits in recent years. In 2005/06, the trade deficit increased to \$1.014 billion, up from \$837 million in 2004/05, an increase of 21 per cent. The growth in the trade deficit was essentially the result of higher growth in imports than in exports. While imports grew by 16.5 per cent between 2004/05 and 2005/06, exports grew by 11.6 per cent during the same period. Much of the increase in total exports was due to the rise in export unit prices, up by 17.4 per cent in 2005/06.

Uganda continues to depend largely on a few agricultural exports, especially coffee, fish, tea and cotton, and thus remains vulnerable to external shocks to terms of trade. Exports of coffee increased from \$145 million in 2004/05 to \$180 million in 2005/06,

Table 3 - Current Account (percentage of GDP)

	1997/98	2002/03	2003/04	2004/05	2005/06 (e)	2006/07 (p)	2007/08 (p)
Trade balance	-7.4	-9.9	-9.6	-10.5	-10.7	-11.0	-11.4
Exports of goods (f.o.b.)	7.0	8.1	9.4	10.0	10.6	10.2	9.9
Imports of goods (f.o.b.)	14.5	18.1	18.9	20.5	21.2	21.2	21.2
Services	-3.1	-4.1	-3.4	-3.9	-4.0	-3.6	-3.3
Factor Income	-1.3	-2.8	-2.1	-2.0	-1.7	-1.6	-1.4
Current transfers	4.8	11.1	13.9	14.1	9.6	8.6	9.9
Current account balance	-7.1	-5.7	-1.3	-2.3	-6.8	-7.5	-6.2

Source: Domestic authorities' data, estimates (e) and projections (p) based on authors' calculations

<http://dx.doi.org/10.1787/774337527773>

2. Government of Uganda Budget Statement 2006/07.

largely because of the strengthening of the world price of coffee. Indeed, coffee export prices reached a peak of \$1.70 per kilo in January 2006 before stabilising at \$1.50 per kilo by September 2006. Non-coffee exports increased marginally, from \$642 million to \$697 million during the same period, mainly as a consequence of increases in the volumes and unit prices of fish exports.

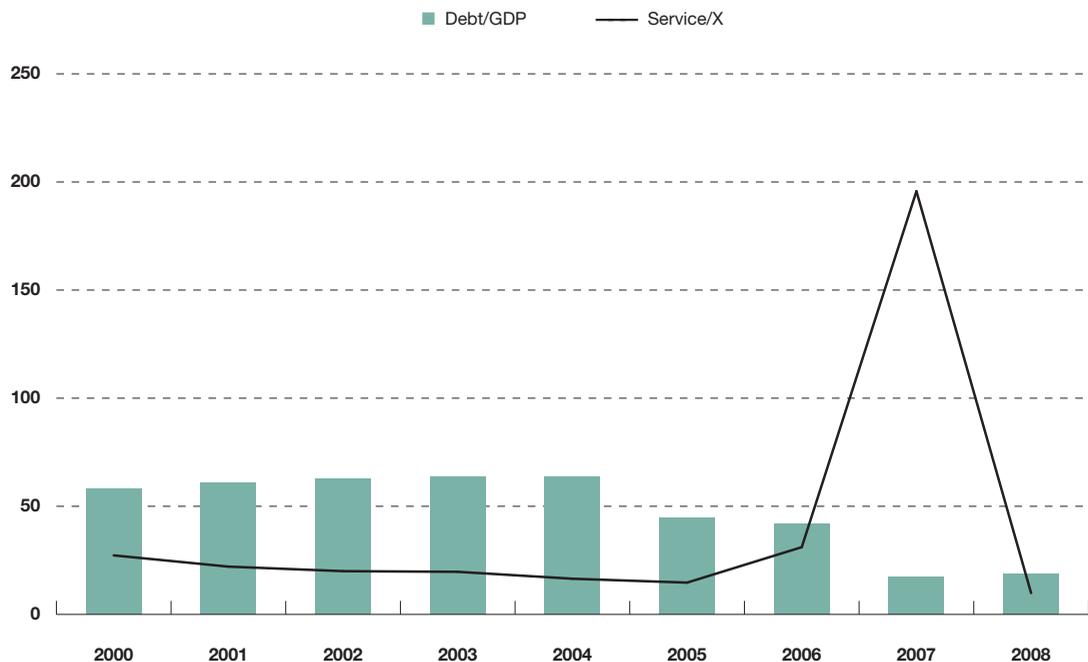
In spite of the deterioration in the current account, Uganda's foreign reserves in 2005/06 increased by over \$75 million, mainly thanks to debt relief arising from the Heavily Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). Uganda's foreign reserves in 2005/06 covered 6.6 months of imports of goods and services.

The HIPC initiative has undoubtedly contributed to the reduction in Uganda's external debt burden. Measured as a percentage of exports, external debt service declined from 15.4 per cent in 2004/05 to 13.1 per cent in 2005/06. This figure does not include the debt relief received from the MDRI, which cancelled

100 percent of Uganda's debt owed to the African Development Bank, the International Monetary Fund (IMF), and the World Bank. Full implementation of the MDRI will reduce the country's stock of external debt by about 65 per cent.

Regional integration constitutes one of the cornerstones of Uganda's trade policy. The government has continued to consolidate its participation in regional integration activities with the objective of facilitating trade and investment in the East African Community (EAC). On 1 January 2005, the East African Community Customs Union, consisting of Uganda, Tanzania and Kenya, was launched, marking the beginning of a new phase in the development of the community. Burundi and Rwanda joined the EAC in 2006 as full-fledged members. The year 2005/06 witnessed a substantial increase in the convertibility of all three East African Community currencies. Attempts are under way to implement the East African cross-border payments system. In addition, in an effort to ensure financial sector stability in the region, the three

Figure 3 - **Stock of Total External Debt** (percentage of GDP) and **Debt Service** (percentage of exports of goods and services)



Source: IMF.

<http://dx.doi.org/10.1787/248053578035>

East African Community central banks have adopted risk-based supervision which will strengthen the financial sector and help mobilise and channel resources to productive sectors.

The focus is now on delivering tangible benefits of regional integration. The critical factors for successful integration exist in the sizeable market of over 90 million people with a total GDP of \$30 billion in the region. The Monetary Policy Coordinating Committee of the central banks of the partner states was mandated to work on a strategic plan and a road map to ensure a single currency for East Africa by December 2009. The Community Customs Union Management Act, enacted in 2004, contains provisions for governing trade in goods in the community partner states, including bonded warehouses and export processing zones. In addition, it specifies prohibited and restricted imports and exports within the customs union. It also sets out legal guidelines on the application of preferential treatment for goods imported under the Common Market for East and Southern Africa (COMESA) and Southern African Development Community (SADC). The Protocol on Free Movement of Persons, Labour Market, Services and Right of Establishment and Residence was due to be concluded by 2006, while that on a common market is expected by December 2007.

Structural Issues

Recent Developments

The government of Uganda remains committed to structural reforms, aimed at improving the investment climate and increasing productivity. Past reforms have removed institutional bottlenecks that hindered the development of the private sector, but investment has yet to respond to the desired level. The government is also committed to a broad-based private sector-led growth of the economy, through reform and privatisation of parastatals. By the end of April 2006, 128 divestitures had been completed using various modes of privatisation. Twenty-four public enterprises

are in various stages of divestiture. The Kinyara Sugar Works and the Dairy Corporation are in advanced stages of divestiture while the Mandela Stadium Concession, Stanbic Bank and National Insurance Corporation initial public offerings will be completed in 2006/07. Nevertheless, the business climate continues to be rated as rather unfavourable by the World Bank's Doing Business indicators.

The government is considering amendments to ease barriers to investment, and is establishing a clear policy on land use to allow flexible and full utilisation of idle land. The government is preparing an Investment and Free Zones Bill to provide legal backing to the establishment of export processing zones.

Uganda recognises that the development of small and medium sized enterprises (SMEs) is crucial for employment and entrepreneurship. Currently, about 1.5 million people, nearly 90 per cent of the non-farming active population, are employed in micro and small enterprises. The government has since 1987 implemented a number of policy measures under the Economic Recovery Programme to create an enabling environment primarily for SME development. A Small-Scale Enterprise Policy Unit (MSEPU) has been established in the Ministry of Finance, Planning and Economic Development (MFPED). This unit is responsible for the co-ordination of all efforts to promote SMEs.

Micro-finance is the main form of finance for SMEs in Uganda. The government strategy is to increase the availability and accessibility of micro-finance for the poor, especially farmers and micro and small entrepreneurs. This will be achieved through provision of both direct and indirect support to farmers' groups and the development and strengthening of savings and credit co-operatives (SACCOs).

In 2003 Parliament passed the Micro Deposit-Taking Institutions (MDIs) Act which created a regulatory system. During 2005/06, three additional MDIs were licensed under the MDI Act, taking the total number to four³. This development led to strong growth

3. The newly licensed MDIs are PRIDE Microfinance Limited, Uganda Microfinance Limited and Uganda Finance Trust Limited.

in customer deposits and lending by the MDIs in 2005/06.

Official unemployment is relatively low, and is found mainly in urban areas, particularly among the most highly educated and amongst women. But under-employment is widespread, affecting 65 per cent of all adults, and 75 per cent of women.

Access to Drinking Water and Sanitation

Uganda lies almost wholly within the Nile Basin and most of its water resources are shared with other countries. The water resources are governed by a number of agreements and conventions on international waters although not all are ratified. These include the Protocol for Sustainable Development of Lake Victoria and the Lake Victoria Basin Commission (LVBC), East African Community (EAC), Global Water Partnership (GWP), African Water Facility (AWF), Nile Basin Initiative (NBI), and African Ministers Council on Water (AMCOW) programmes. Uganda also participates in international, regional and basin-wide groupings such as the Technical Cooperation Committee for the Promotion of the Development and Environmental Protection of the Nile Basin (TECCONILE), Inter-Governmental Agency for Drought (IGAD), Kagera Basin Organisation (KBO) and Lake Victoria Fisheries Organisation (LVFO).

The overall responsibility for formulating national water policies in Uganda rests with the Ministry of Water, Lands and Environment (MWLE), implemented by the Directorate of Water Development (DWD) and National Water and Sewerage Corporation (NWSC). At the local government level, the districts, towns, and sub-counties, together with the local communities and non-governmental organisations (NGOs), are responsible for implementing, operating and maintaining water supply and sanitation facilities.

Private-sector firms operate under contract to local and central governments. They provide maintenance services to water users in rural and peri-urban areas, and they manage piped water services in the majority of small towns that have piped water. NGOs and Community

Based Organisations (CBOs) are active in the provision of water and sanitation services (construction of facilities, community mobilisation, training of communities and local governments, hygiene promotion as well as advocacy and lobbying). In August 2006 the Uganda Water and Sanitation NGO Network (UWASNET) had a membership of 150 NGOs/CBOs implementing projects in the sector. The UWASNET secretariat is supported financially by the government and development partners.

The water and sanitation sector has mechanisms for monitoring and evaluation. There are 70 surface water-monitoring stations, 16 groundwater water-observation wells, 112 water quality sampling sites and 18 climatic stations. A water quality and pollution control laboratory has been established and equipped. In addition a Quality Assurance (QA) system has been established, including audits and an external proficiency scheme to ensure performance to international standards and obtain accreditation of the laboratory is in process.

Transparency has improved in the award of contracts at the central government level through properly constituted contracts committees. Each of the committees is assisted by procurement secretariats that are supported by trained and qualified professionals. The committees are largely independent of political patronage or interference and report to the Public Procurement and Disposal of Assets Authority (PPDAA). This body has the mandate to oversee and supervise all procurement activities countrywide. Hence there is a large degree of autonomy and independence of decision-making in the procurement process as a result of reforms in the procurement sector that began in 1998. However, the situation is different for contracts awarded by district tender boards, which lack capacity and qualified manpower and are open to political influence from local councillors.

A Sector Wide Approach to Planning (SWAP) for the water and sanitation sector was adopted in September 2002. SWAP is a mechanism whereby government and development partners co-ordinate policy and expenditure programmes using a common approach. The rural water and sanitation sub-sector is

the most advanced in Uganda in terms of SWAP implementation.

In 2005/06, the government completed the construction of six water systems⁴ and construction of water systems is in progress in 13 towns⁵. In the large towns where the NWSO operates, service coverage improved from 67 per cent in June 2005 to 70 per cent in June 2006. Unaccounted-for water losses improved from 33.8 per cent in June 2005 to 29.3 per cent by June 2006, and new water connections increased from approximately 22 000 in 2004/05 to about 28 000 in 2005/06 as a result of a new streamlined connection policy.

In 2005/06 around 550 000 people were provided with improved water supplies. Between January and December 2005, NGOs provided an estimated number of 113 000 people with new water sources (protected springs, shallow wells, boreholes, gravity scheme taps and rainwater harvesting facilities). NGOs are providing considerable assistance for improved water sources. Some of them have demonstrated their ability to innovate (e.g. domestic roof water harvesting, biosand filters, and leverage of household investments). There have also been joint NGO-government collaborative efforts to pilot appropriate technologies. This further illustrates the multi-stakeholder participation in the water and sanitation sector in Uganda.

Access to safe water and sanitation remains one of the top priorities of the government. Access to water in rural areas increased from 61.3 per cent in June 2005 to 63.4 per cent by June 2006. The government's official target is to reach water coverage of 77 per cent in rural areas and 100 per cent of the urban population by the year 2015 with an 80 per cent to 90 per cent effective use and functionality of facilities. Although the actual coverage rate is below the target rate required to achieve the Millennium Development Goal (MDG) on access to water supply, it is well above the East

African average of 42 per cent, and comparable with the African average of 64 per cent. In the case of access to sanitation, the coverage rate in Uganda is 47 per cent, which is above the East African average (27 per cent) and African average (42 per cent), but falls short of the 95 per cent set by the MDGs.

On current trends, Uganda is on course to achieving the MDG target on access to water supply, but is likely to lag behind in the case of access to sanitation. Nonetheless, the government is aiming to achieve both of these MDGs as set out in its Sector Investment Plans (SIPs). The total investment requirements for achieving the Water Supply and Sanitation (WSS) MDGs range from \$1.5 billion to \$1.85 billion in five key sub-sectors: rural water supply and sanitation (43 per cent of the investment requirement), small towns WSS (32 per cent), large towns WSS (16 per cent), water for use in production (3 per cent) and water resources management (6 per cent).

The average per capita cost of providing improved water to people in rural areas is \$34, with considerable variation between districts. There has been a steady increase in per capita costs arising from a marked reduction in the availability of low cost options such as springs and shallow wells, increased expenditure on overheads (in part as a result of the creation of new districts) and an increase in the cost of other resources (e.g. fuel, construction materials). It is estimated that only 17 out of 53 small towns are able to cover their operation and routine maintenance costs.

Funding of WSS comes from both the government of Uganda and donors. In 2005/06, for instance, the total spending on water and sanitation sector was 103 billion shillings, 61 per cent of which was financed by donors. A breakdown of the Medium Term Expenditure Framework (MTEF) allocation by sub-sectors shows that 47 per cent of it went to urban water supply and sanitation, 40 per cent to the rural sector,

4. The six water systems were constructed in Hoima, Mubende, Bujenje, Bwijanga, Kyatiri and Aduku.

5. The 13 cities are Iganga, Mityana, Mpigi, Kigumba, Apac, Pakwach, Nebbi, Soroti, Kaberamido, Sironko, Sembabule, Nagongera, and Kangumbira.

4 per cent to water for production, 3 per cent to water resources, and the remaining 6 per cent was reserved for institutional support.

Political Context and Human Resources Development

Uganda's political situation appears to be stabilising following the March 2006 multiparty elections, which saw the incumbent President Museveni returned to office after winning nearly 60 per cent of the national vote. The leader of the main opposition party, Kizza Besigye, came second with 37 per cent of the vote. International observers described the elections as generally free but not fair. The opposition filed a petition, and although the subsequent ruling did not annul the election results it harshly criticised the electoral commission for numerous irregularities.

Security problems continue to threaten Uganda's democracy, in particular the long-running conflict in the north of the country. Concerted efforts by the government to end the insurgency and restore peace in the affected districts have continued but long term security remains elusive. The peace talks between the government and the Lord's Resistance Army (LRA) meant to end two decades of insurgency in Northern Uganda, mediated by the Southern Sudan government, are yet to yield tangible results. The cease-fire agreement concluded in June 2006 was still holding in early 2007 but the biggest constraint to progress is the International Criminal Court (ICC) arrest warrant against the leaders of the LRA, who consequently refuse to lay down their arms.

Transparency International's corruption perception index (CPI) for 2005 and 2006 shows that corruption in Uganda has marginally improved. Whilst Uganda's ranking in the corruption league table in both years remained the same, at 105th position, the average CPI score edged up from 2.5 in 2005 to 2.7 in 2006⁶. This lends limited support to results from an earlier national survey, the National Integrity Survey (2003), which revealed some perceived improvement in the area of

governance, but some donors remain concerned about the slow progress in curbing corruption. The Ugandan government has reaffirmed its commitment to good governance as a cornerstone in its fight against poverty, under the National Strategy to Fight Corruption and Build Ethics and Integrity in Public Offices (2004-07). Implementation of this strategy is, however, fraught with difficulties.

Uganda continues to implement its policy of decentralisation, which began in 1993 with a vision of creating a local government system that is democratic, participatory and development-oriented. The decentralisation policy is now part of the constitution and has an elaborate legal framework under the 1997 Local Government Act. Implementation is co-ordinated by the Decentralisation Secretariat in the Ministry of Local Government.

The decentralisation policy has been implemented in a wide range of sectors starting with the democratisation of local councils. Democratic elections have been held for office from the lowest unit – Local Council 1 (LC1) – to the highest organ at the district, Local Council 5 (LC5). The policy has provided the framework for implementing a number of government initiatives including the Poverty Eradication Action Plan (PEAP), the Plan for Modernisation of Agriculture (PMA) and the National Agricultural Advisory Service (NAADS). In a review of the policy in November 2004 it was concluded that decentralisation was leading the transformation of the political landscape of the country as local leaders are now chosen through free and fair elections and can be held accountable.

The number of districts was raised from 56 to 72 in June 2004, considerably increasing the costs of administration. The government is now encouraging some of the districts to federate but is encountering resistance. It remains to be seen how well the new decentralised structures will operate.

For nearly a decade, Uganda has been implementing a highly integrated Poverty Eradication Action Plan

6. The higher the CPI score the less corrupt a country is perceived to be.

(PEAP). The results from the 2005/06 United Nations Household Survey (UNHS) show that poverty decreased from 56.4 per cent in 1992/93 to 38.8 per cent in 2002/03 and to 31.1 per cent in 2005/06. This represents an absolute decrease in the number of poor people from 9.8 million in 1992/93 to 8.4 million in 2005/06. If the five districts in Northern Uganda (Kitgum, Gulu, Bundibugyo, Kasese and Pader) are excluded, poverty decreased from 55.7 per cent in 1992/93 to 37.7 per cent in 2002/03 and to 28.9 per cent in 2005/06. These figures clearly show that the implementation of the PEAP has helped reduce poverty in Uganda.

The results of the 2005/06 UNHS also show that income inequality in Uganda has decreased in recent years. The Gini coefficient, which measures the extent of income inequality, decreased from 0.428 in 2002/03 to 0.408 in 2005/06⁷. However, the improvements in inequality were mainly seen in urban rather than rural areas.

Investment in education in recent years has borne some fruit. School enrolments for both boys and girls are quite high and comparable. Primary school enrolment is at 126 per cent for boys and 125 per cent for girls, much higher and more equal across sexes than the regional averages of 106 per cent and 94.7 per cent for boys and girls respectively. But in spite of this achievement primary school completion is very low. The 2005/06 UNHS compared Primary 1 (P1) attendance from the 1999/2000 survey with P7 attendance in the 2005/06 survey. The results show that in 1999/2000 around 1 807 000 children were attending P1 whereas in 2005/06 only 685 000 children were attending P7. This implies a completion rate of only 38 per cent.

In an attempt to improve the performance of primary school teachers, the government increased teachers' salaries by 20 per cent in 2005/06. It has also constructed libraries in 16 non-core primary-teacher colleges. In a bid to enhance equitable access to public universities during 2005/06, 896 students were admitted through the district quota system; 40 students with

“special talent” and 64 special needs students were also admitted. A major expansion of the student population resulted from the introduction of parallel programmes financed privately.

To increase access to higher education, government has set up a management committee to create a public university in eastern Uganda which is expected to open in the 2008/09 academic session. Great strides were also made in the field of adult education where the adult literacy rate rose from 65 per cent in 1999/2000 to 70 per cent in 2005/06, mainly because of improvement in rural areas. A further breakdown of the latest figures shows that male literacy rate (77 per cent) is much higher than the female rate (60 per cent). Uganda has also made significant progress in the field of human development. The latest Human Development Index, at 0.508, is higher than the average for the East African region (0.432) and the continental average (0.495).

Uganda continues to make progress in service delivery in the health sector. Improvements in primary health care services and construction of new health facilities have improved access to health care, which in turn has improved key health indicators. Infant mortality at 77.5 per 1 000 is lower than the regional (East African) and continental averages of 85.7 per cent and 82.5 per cent per 1 000 respectively. Maternal mortality, at 880 per 100 000, is also marginally below the regional average (882) but well above the continental average (622). However, life expectancy in Uganda has increased from 43.1 years in 2002 to 51.1 years in 2005 thanks to improved health and other social conditions. Uganda has made significant progress in bringing down the prevalence of HIV/AIDS over the years, but a recent national survey showed that prevalence has slightly increased from 6.5 per cent in 2005 to 7 per cent in 2005/06. Clearly, this calls for renewed efforts to combat the HIV/AIDS epidemic.

7. The lower the Gini coefficient, the lower the income inequality.