

Building on Growth in Uganda

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Over the past two decades, Uganda has seen a remarkable turnaround in economic performance, with growth averaging about 7.7 percent a year over the 1997–2007 period. Equally impressive has been the sharp decline in poverty rates, which fell about 15 percentage points over this period. Improved macroeconomic management and economic reforms contributed to the country's strong growth performance.

Although growth and poverty reduction have been impressive, Uganda has experienced worsening income distribution; a decline in the relative importance of agriculture to overall gross domestic product (GDP); a growing youth population, with increasing unemployment; and a low rate of urbanization. There has also been limited structural transformation of the economy, a reflection that growth has come largely from the services sector, which employs the highly skilled, rather than from the agricultural sector, which still employs 70 percent of the population. Notwithstanding the considerable progress in diversifying its export base away from coffee, Uganda still remains a primary commodity exporter, with limited value addition to its major exports.

GROWTH EXPERIENCE

Uganda achieved impressive economic growth over the past two decades, with positive per capita GDP growth since 1987 and stronger growth than the continent as a whole (figure 2.1 and table 2.1). Despite this improvement,

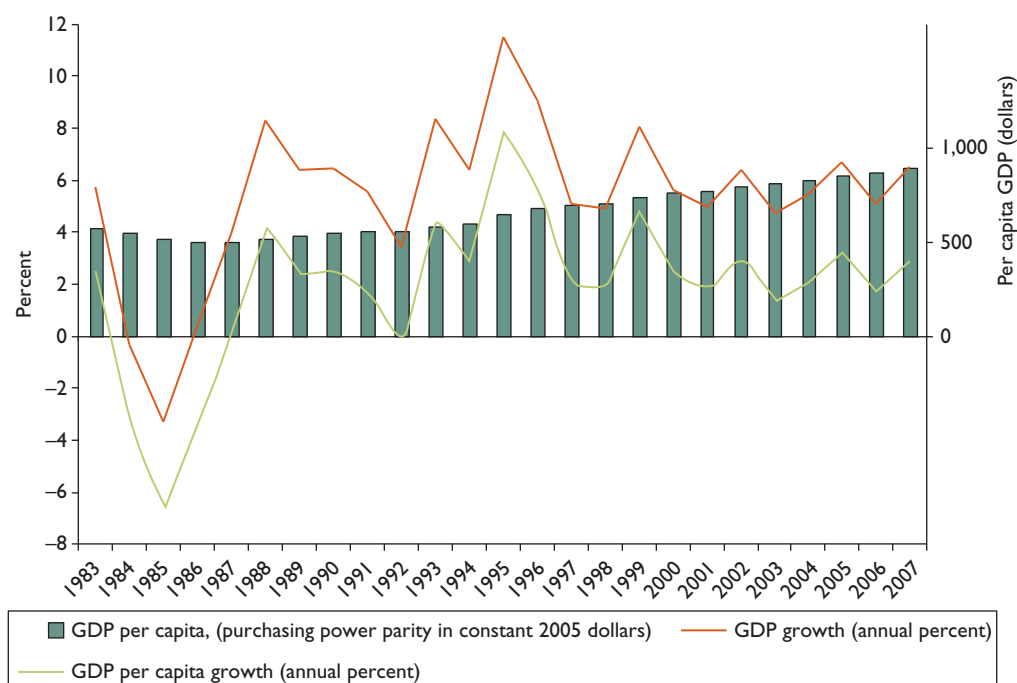
Uganda's per capita GDP at purchasing power parity remains about half that of Sub-Saharan African as a whole.

During the decade following the end of political instability and civil war in 1986, Uganda's economy grew at an average rate of 7.7 percent a year. (Economic growth declined by 1.4 percentage points between 2008/09 and 2009/10.) Initially, economic growth was driven by postwar recovery and reconstruction. Since the early 1990s it has been driven by comprehensive macroeconomic and structural reforms. Investment growth also remained strong, with private investment rising by an estimated 17 percent and public investment rising 15 percent (table 2.2). Private investment growth was led by construction (AfDB 2009).

Economic growth has been export led, with the share of exports in GDP rising over the past two decades. The expanding regional market for Uganda's food and manufactured products has boosted exports during the past five years, a reflection of the dividend enjoyed by Uganda's neighbors, whose demand for Ugandan goods has increased.

Growth has been driven by the services sector, which has accounted for almost half of GDP since 2001/02 (table 2.3). Before the global financial crisis, the key subsectors driving growth in the services sector included financial services, transport and communications, public administration, and defense (see annex table 2.A1). The agricultural sector grew more slowly than the other sectors between 2001/02 and 2009/10, accounting for about 24 percent of annual GDP on average over the period (table 2.3).

Figure 2.1 Annual GDP Growth in Uganda, 1983–2007



Source: World Bank 2009.

Table 2.1 Annual GDP Growth in Selected Countries in Sub-Saharan Africa, 1997–2009

Year	Ghana	Kenya	Mauritius	Mozambique	South Africa	Tanzania	Tunisia	Uganda	Sub-Saharan Africa
1997	4.20 (1.59)	0.47 (-2.23)	5.69 (4.37)	10.24 (7.26)	2.65 (0.32)	3.53 (0.84)	5.44 (4.00)	5.10 (1.94)	3.58 (0.87)
1998	4.70 (2.15)	3.29 (0.59)	6.07 (4.96)	10.78 (7.96)	0.52 (-1.82)	3.71 (1.12)	4.78 (3.46)	4.91 (1.77)	2.42 (-0.24)
1999	4.40 (1.90)	2.31 (-0.33)	2.61 (1.31)	8.12 (5.39)	2.36 (-0.08)	3.53 (0.97)	6.05 (4.68)	8.05 (11.11)	2.46 (-0.19)
2000	3.70 (1.24)	0.60 (-1.98)	9.03 (7.96)	1.09 (-1.52)	4.15 (1.61)	5.10 (2.46)	4.70 (3.52)	3.14 (-0.01)	3.53 (0.87)
2001	4.00 (1.56)	3.78 (1.11)	2.57 (1.46)	11.9 (8.93)	2.74 (0.65)	6.24 (3.53)	4.92 (3.73)	5.18 (1.92)	3.62 (1.00)
2002	4.50 (2.07)	0.55 (-2.03)	2.11 (1.24)	8.82 (5.92)	3.67 (2.25)	7.24 (4.46)	1.65 (0.53)	8.73 (5.31)	3.45 (0.87)
2003	5.20 (2.79)	2.93 (0.29)	3.66 (2.59)	6.02 (3.21)	2.95 (1.65)	5.67 (2.84)	5.56 (4.94)	6.47 (3.09)	4.23 (1.67)
2004	5.60 (3.23)	5.10 (2.40)	5.75 (4.84)	7.88 (5.08)	4.55 (3.33)	6.73 (3.88)	6.04 (5.05)	6.81 (3.39)	6.19 (3.60)
2005	5.90 (3.58)	5.91 (3.17)	1.24 (0.44)	8.39 (5.66)	5.28 (4.09)	7.37 (4.46)	3.98 (2.98)	6.33 (2.92)	5.72 (3.15)
2006	6.40 (4.13)	6.32 (3.56)	3.95 (3.14)	8.68 (6.04)	5.60 (4.43)	6.74 (3.79)	5.66 (4.63)	10.78 (7.23)	6.17 (3.59)
2007	6.46 (4.24)	7.01 (4.22)	5.52 (4.87)	7.28 (4.75)	5.49 (4.34)	7.15 (4.15)	6.33 (5.32)	8.41 (4.92)	6.60 (4.02)
2008	8.43 (6.20)	1.55 (-1.09)	5.09 (4.41)	6.74 (4.29)	3.68 (2.54)	7.44 (4.39)	4.64 (3.60)	8.71 (5.21)	5.26 (2.72)
2009	4.66 (2.52)	2.59 (-0.08)	2.14 (1.62)	6.33 (3.96)	-1.78 (-2.83)	5.50 (2.48)	3.13 (2.10)	7.06 (3.62)	1.65 (-0.80)

Source: World Bank 2010.

Note: Figures in parentheses are per capita growth rates.

Table 2.2 Components of GDP Growth in Uganda, 2001–09
(percent, in 2002 prices)

Component	2001	2002	2003	2004	2005	2006	2007	2008	2009
<i>Consumption</i>									
Private	6.3	6.1	2.8	3.4	8.1	12.3	2.9	8.2	11.5
Public	2.9	5.2	5.2	3.7	4.5	3.7	-1.5	1.7	-1.9
<i>Investment</i>									
Private	10	14.1	16.1	14.6	23.5	10.3	14.6	12.0	1.1
Public	0.3	-8.1	2.3	11.6	9.3	13.5	19.6	-15.3	28.8
<i>Trade</i>									
Exports	17.2	7	6.6	20.9	21.5	-6.3	53.8	45.0	-12.0
Imports	12.8	7.5	6.2	9.6	16.8	17.2	15.7	17.6	4.6

Source: Uganda Bureau of Statistics 2010.

Table 2.3 Sectoral Contributions to GDP and Growth Rates in Uganda, 2001/02–2008/09
(percent, in 2002 prices)

Item	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<i>Sectoral contributions to GDP (in current prices)</i>									
Agriculture	23.1	22.1	21.1	20.2	24.1	22.3	21.4	23.1	23.9
Industry	22.0	22.6	22.8	24.0	22.8	25.1	25.8	24.7	24.6
Services	48.3	48.6	49.1	49.0	47.2	47.0	46.9	46.4	45.4
<i>Growth rate</i>									
Total GDP	8.5	6.5	6.8	6.3	10.8	8.4	8.7	7.2	5.8
Per capita GDP	5.1	3.1	3.4	3.0	7.3	5.0	5.3	3.8	2.4
Agriculture	7.1	2.1	1.6	2.0	0.5	0.1	1.3	2.5	2.1
Industry	7.4	9.5	8	11.6	14.7	9.6	8.8	5.8	8.9
Services	11.0	7.4	7.9	6.2	12.2	8.0	9.7	8.8	5.8

Source: Uganda Bureau of Statistics 2010.

The contribution of industry to GDP—which ranged from 22.0 to 24.6 percent over the period—is well below the 35 percent benchmark for countries graduating from low- to middle-income status (Bevan and others 2003). Growth in the sector fell from 9.1 percent in 2007/08 to 5.8 percent in 2008/09, largely as a result of the global economic crisis, which reduced the remittances that had fueled a construction boom in Uganda. The decline caused the share of the construction subsector in GDP to fall from 10.8 percent in 2007/08 to 3.7 percent in 2008/09 (see annex table 2.A1). The slowdown was also a result of the increase in the costs of imported inputs arising from the depreciation of the Ugandan shilling. The contribution of the manufacturing subsector to overall GDP was well below that of the construction subsector.

Structural transformation of the economy

Uganda's economy has been growing rapidly, but growth has failed to create enough jobs for the ever-increasing labor force. Evidence from the Uganda National Household Surveys shows that as a result of impressive economic growth during the 1990s, the population experienced important

broad-based welfare gains in terms of consumption increases. The gains were not equally distributed across social groups and spatially. Overall, the pattern of growth has been skewed, with growth taking place in subsectors such as telecommunications and finance, which employ highly skilled people, not the poor.

The mismatch between the contribution of the different sectors to GDP and the proportion of the population that derives its livelihood from the sectors has serious implications for the level of unemployment and underemployment in Uganda. Although the contribution of agriculture to overall GDP has remained lower than that of services or industry, its share in employment remains high. Services, which account for almost half of GDP, employ only about 24 percent of the population. Employment in industry, which accounts for more than a quarter of GDP, is also very minimal, at about 8 percent of the population (table 2.4).

Agricultural performance

Because more than two-thirds of Ugandans work in agriculture, development of the Ugandan economy is closely linked

to transformation of the agricultural sector. Agriculture in Uganda is still characterized by low productivity, mainly as a result of poor inputs, undeveloped value chains, and low public and private investment in the sector. The lack of sustained agricultural growth and the slow process of diversification in agriculture pose serious threats to poverty reduction efforts.

The reforms of the early 1990s, especially the dismantling of the agricultural public enterprises and liberalization of the economy, led to greater participation of the private sector in marketing agricultural produce. The agricultural reforms implemented since the mid-1990s, however, have largely benefited only a small fraction of farmers, particularly richer and better-educated farmers, who have been able to diversify their agricultural production. Once these efficiency gains were exploited, other innovations were needed to maintain growth in the sector (Okidi and others 2007).

Only 50 percent of agricultural production in Uganda is sold on markets. With the exception of coffee farmers and farmers engaged in other tradables or niche markets (vanilla, fruit, tomatoes), most smallholders in Uganda are still engaged in subsistence farming. For the most part, Ugandan farmers remain poor and out of mainstream economic activity.

Export performance

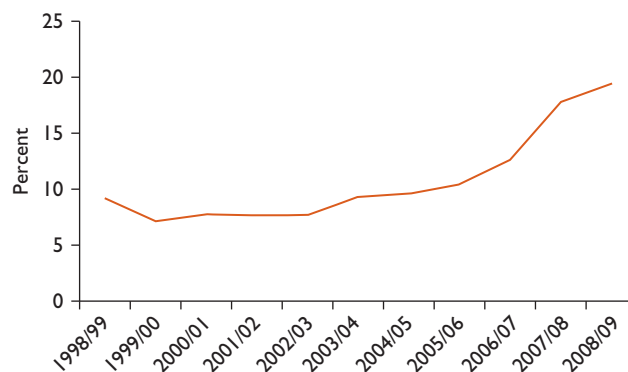
Exports as a share of GDP have increased over time in Uganda (see figure 2.2). Before the liberalization of the economy and the emphasis on import substitution and export diversification in the 1990s, Uganda depended mainly on coffee as its main export. This dependence on a single commodity was a major constraint to terms-of-trade growth, especially when world coffee prices dropped, as they did in the mid-1990s.

To insulate the economy from adverse terms of trade and instability in export earnings associated with commodity concentration, the government adopted a policy shift in 1987 that sought to diversify the exports base to include nontraditional (mainly agricultural) exports. Since

then, Uganda has diversified its exports base to include larger shares of flowers, fishing, and other agricultural exports (see annex table 2.A2). Revenue from noncoffee exports increased by more than sixfold between 1997/98 and 2008/09, rising from \$189.6 million to \$1,199.6 million (figure 2.3).

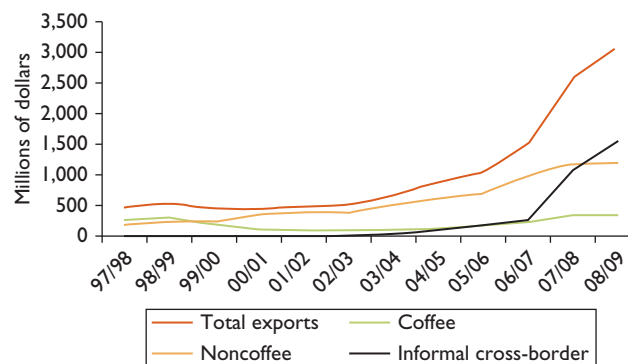
Trade liberalization was designed to reverse and even eliminate the trade deficit by increasing export earnings and curtailing the demand for imports. Incentives for export-oriented trade and market-determined exchange rate policies were expected to encourage both traditional and nontraditional exports. Nevertheless, merchandise exports continued to decline throughout the liberalization period (1987–92), partly because the manufacturing sector had shrunk as a result of the economic mismanagement of

Figure 2.2 Exports as Percentage of GDP in Uganda, 1998/99–2008/09



Source: Bank of Uganda 2009.

Figure 2.3 Coffee, Noncoffee, and Total Exports from Uganda, 1997/98–2008/09



Source: Bank of Uganda 2008/09.

Table 2.4 Distribution of Employment in Uganda, by Sector and Gender, 2003 (percent)

Sector	Women	Men	Total
Agriculture	76	62	69
Industry	5	10	8
Services	19	28	24

Source: World Bank 2009.

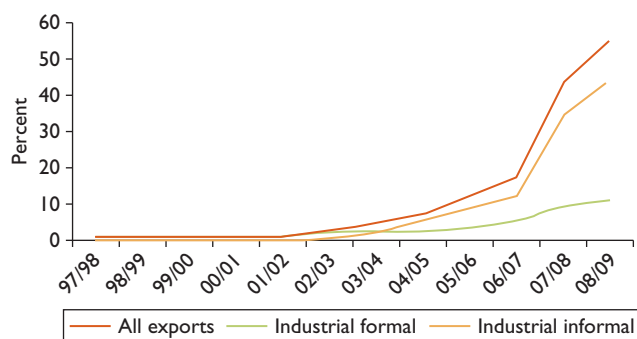
earlier regimes. Since then, the value of exports has improved markedly.

Alongside the increase in noncoffee exports has been a huge increase in the importance of informal cross-border trade, which rose from 1.3 percent of total exports in 2002/03 to 50.2 percent by 2008/09—a significant development in the wake of the global financial crisis, which was beginning to affect traditional exports, especially coffee. Including informal cross-border trade, the share of industrial products in total exports increased from 43.8 percent in 2007/08 to 54.9 percent in 2008/09 (figure 2.4). As new emerging export markets within the region stabilize, it will be difficult for Uganda to sustain the recent rate of industrial product export growth.

Most primary commodities earn a fraction of what they would earn if they had been processed. Consequently, although the shilling depreciated against the U.S. dollar in real terms (from U Sh 558 per dollar in 1987 to U Sh 2,000 in 2008), implying higher domestic producer prices in Uganda shillings, the trade deficit ballooned, from \$446.7 million in 1997/98 to \$936.3 million in 2008/09. The increase in the trade deficit reflected the low returns from exports caused by the deteriorating terms of trade and the large increase in the value of imports caused by the depreciation of the shilling. The trade deficit as a share of GDP has declined since 2005/06 (figure 2.5).

Uganda will potentially benefit from the expanded East African Common Market, estimated at 120 million people, which allows unimpeded movement of labor, capital, and other services across borders within Burundi, Kenya, Rwanda, Tanzania, and Uganda. However, trade with the largest economies in the union (Kenya and Tanzania) has been one sided, with limited exports from Uganda to the two countries. Uganda's trade has been boosted mainly by

Figure 2.4 Industrial Products as Percentage of Total Exports in Uganda, 1997/98–2008/09



Source: Bank of Uganda 2008/09.

Figure 2.5 Trade Deficit as Percentage of GDP in Uganda, 1998/99–2008/09



Source: Bank of Uganda 2009.

trading with postconflict economies in the region, including Southern Sudan, the Democratic Republic of Congo, and Rwanda. As these countries stabilize, the trade deficit of Uganda with its major East African Community partners will have to be addressed by increasing exports to Kenya and Tanzania.

Impact of growth on poverty reduction and other millennium development goals

Uganda is one of the few Sub-Saharan African countries to achieve the first MDG of halving extreme poverty before 2015 (annex table 2.A3). The proportion of the population living below the absolute poverty line declined from 56.4 percent in 1992/93 to 31.1 percent in 2005/06 and to 24.5 percent in 2009/10 (table 2.5).¹ Income poverty remains a key development challenge, however, with the absolute number of poor people declining only marginally, from 9.8 million in 1992 to 8.4 million in 2005/06 and to 7.5 million in 2009/10, as a result of a population growth rate of 3.2 percent a year. The majority of the poor live in rural areas, in particular in northern Uganda (Ssewanyana and Okidi 2007; Uganda Bureau of Statistics 2010).

The regional ranking of other poverty measures in Uganda is identical to that of the headcount index, although there are growing differences in the poverty gap between northern Uganda and the rest of the country. Overall, the poverty gap dropped faster than the poverty headcount, implying rising mean consumption by Uganda's poor. The recovery in the agricultural sector, especially the food crop subsector; return to peace in northern Uganda and some parts of the eastern region; and resettlement of the

Table 2.5 Poverty Headcount and Income Inequality Estimates for Uganda, 1992/93–2005/06

Region	Poverty headcount				Gini coefficient			
	1992/93	2002/03	2005/06	2009/10	1992/93	2002/03	2005/06	2009/10
National	56.4	38.8	31.1	24.5	0.365	0.428	0.408	0.426
Rural	60.3	42.7	34.2	27.2	0.328	0.363	0.363	0.375
Urban	28.8	14.4	13.7	9.1	0.396	0.483	0.432	0.447
Central	45.6	22.3	16.4	10.7	0.395	0.460	0.417	0.451
East	58.8	46.0	35.9	24.3	0.327	0.365	0.354	0.319
North	73.5	63.0	60.7	46.2	0.345	0.350	0.331	0.367
West	52.7	32.9	20.5	21.8	0.319	0.359	0.342	0.375

Source: Ssewanyana and Okidi 2007; Uganda Bureau of Statistics 2010.

Note: The poverty headcount is the percentage of people estimated to be living in households with real private consumption per adult equivalent below the poverty line for their region.

internally displaced persons partly accounted for the decline in poverty between 2005/06 and 2009/10.

Although absolute income poverty fell during the past two decades, the distribution of income worsened. Income inequality as measured by the Gini coefficient increased from 0.365 in 1992/93 to 0.408 in 2005/06. Growing income disparities are evident between 2005/06 and 2009/10, when the Gini coefficient reached 0.426. Growth rates for consumption grew more rapidly among the richer quintiles, increasing inequality (Ssewanyana and Okidi 2007; Uganda Bureau of Statistics 2010). Income inequality between rural and urban areas and between regions widened between 2005/06 and 2009/10.

Increasing inequality has slowed the rate of poverty reduction in Uganda. For every 1 percent decrease in growth, the percentage of people living below the poverty line will increase by 2 percent, holding income distribution constant (Ssewanyana 2009). This means that the economy has to grow by at least 7 percent and household consumption has to rise at least 4 percent if Uganda is to avoid reversals in its poverty reduction efforts.

Uganda is likely to attain MDG 3 (promoting gender equality and empowering women), MDG 6 (combating HIV/AIDS), MDG 7 (ensuring environmental sustainability), and MDG 8 (developing a global partnership for development). The stagnation in net primary school enrollment since 2003 at about 85 percent is a clear indication that intensified efforts are required if Uganda is to meet MDG 2, however, and attainment of MDG 4 (reducing child mortality) and MDG 5 (improving maternal health) is unlikely even with improved policies, institutions, and funding (UNDP 2010).

REFORMS DRIVING GROWTH

The past two decades have seen tremendous economic transformation in Uganda, fueled mainly by good policies

involving careful sequencing and determined implementation. The World Bank has referred to Uganda's efforts as "the most far-reaching stabilization and structural reform program in Africa, and one of the most comprehensive reform efforts in the world" (World Bank 2007, 4).

The first reform was the Economic Recovery Program, introduced in 1987, with support from the World Bank and International Monetary Fund (IMF), which focused on price stabilization and liberalization. Policies under this program included currency reform, devaluation, liberalization of domestic prices, and conversion to a floating exchange rate regime (in 1993).

The next set of reforms involved the adoption of the structural adjustment program that was meant to free up markets and create price incentives, stimulate private investment, and encourage competition. Reforms under this program included the abolition of marketing boards, the privatization or abolition of parastatals, and the establishment of the Uganda Investment Authority. This period was characterized by sustained macroeconomic stabilization, adjustment, and structural reform efforts that affected almost all sectors of the economy. Policies mainly involved the macroeconomic stabilization process, price liberalization, financial sector liberalization, public enterprises reform, and civil service reform. In addition to changing and stabilizing the structure of the economy, reorientation of pricing and marketing policies, restarting of economic growth, and strengthening the institutional framework constituted the major cornerstones of the program. To achieve these ends, the Economic Recovery Program focused on ensuring macroeconomic stability; liberalizing the foreign exchange system, trade, prices, and marketing systems; improving the incentive structure and business climate to promote savings mobilization and investment; and rehabilitating the economic, social, and institutional infrastructure.

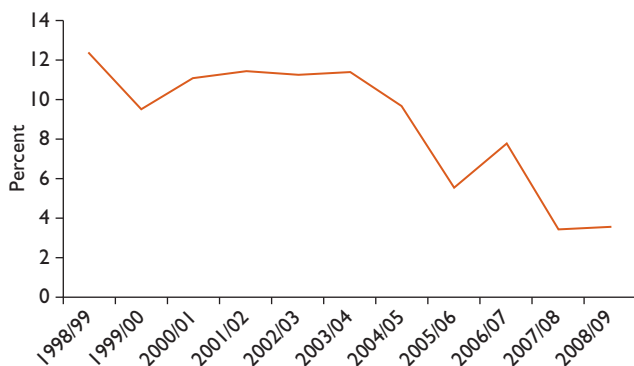
With the economy back on its footing, in 1997 the government introduced the Poverty Eradication Action Plan (PEAP), a multisectoral program aimed at reducing poverty. Policies in this program included the Plan for the Modernization of Agriculture (PMA), which sought to address agricultural constraints to production and to turn agriculture commercial. The plan has not been as successful as envisaged, mainly because it was too broad and in some cases ambiguous, with several programs having too many pillars when the focus should have been on enhancing agriculture productivity. The National Agricultural Advisory Services, the flagship agricultural productivity enhancement program within PMA, was beset by inefficiencies and other implementation problems that limited its impact on agriculture.²

Other sectoral reforms that contributed to the liberalization and stabilization of the economy included the Medium-Term Competitive Strategy for the Private Sector, the Strategic Export Program, and the Strategic Export Intervention Program. These policies were accompanied by important institutional reforms, such as decentralization efforts, the abolition of state-owned marketing boards, and the restructuring of the public administration.

The 1990s saw a substantial reversal in the decline of the economy that had characterized the 1970s and early 1980s, suggesting that reform worked. Confidence in the economy was restored, spurring substantial inflows of aid and foreign direct investment and a reversal of capital flight (figure 2.6). Most economic indicators rebounded, and by 1996 the economy had recovered to its nominal 1971 dollar per capita GDP (World Bank 2007).

To sustain rapid economic growth, the government needed to reorient expenditures toward social sectors and increase spending on infrastructure. Social policy spending

Figure 2.6 Official Development Aid as Percentage of GDP in Uganda, 1998/99–2008/09



Source: Bank of Uganda 2009.

was aimed at spurring growth as well as the level of productivity of assets of poor people. Policies undertaken under the framework of the PEAP included universal primary and secondary education, intended both to raise education indicators and to remove the financial burden of education from parents as a means of reducing poverty. Efforts were also made to increase health coverage, by constructing health centers in all subcounties and parishes.

Examination of the composition of the public budget for most of the 1990s and 2000s reveals that total government expenditure steadily increased, from about 18.6 percent of GDP in 1992/93 to about 32.0 percent in 2008/09. Evidence suggests that increased funding to social services has benefited the poor, especially in rural areas (Kappel, Lay, and Steiner 2005).

With reasonable progress in the social sectors, in the late 2000s the government began addressing the infrastructural constraints that have dogged the country since independence. Since 2007/08 substantial resources have been committed to the rehabilitation and construction of roads and hydroelectric dams. The government has prioritized the building of roads in the medium and long term, with more than 20 trunk roads planned or in the process of being built in the next 20 years (MFPED 2009). The share of total central government budget allocated to works and transport rose from 10.0 percent in 2005/06 to 18.4 percent in 2009/10, and the share of the budget allocated to energy and mineral development rose from 3.5 to 10.3 percent. Taken together, allocations for works, transport, and energy represented almost a third of the 2009/10 budget—a substantial figure given Uganda’s historically low investments in infrastructure. Although issues about absorption capacity and quality of infrastructure remain, there is a perception that the government’s tightened focus on improving infrastructure will help reduce Uganda’s perennial infrastructural shortages, giving the economy a major boost.

CHALLENGES TO DEVELOPMENT

Policy makers need to address a variety of challenges in reducing poverty and spurring growth. In addition to the challenges identified in this section, they need to ensure that growth is inclusive. Failure to achieve equity is likely to exacerbate unemployment and lead to social unrest.

Slow progress in reducing poverty and slowing population growth

Although Uganda has already achieved MDG 1 (halving extreme poverty), poverty remains high, especially in the

northern region. Poverty reduction interventions, especially the Peace and Reconciliation Development Plan (PRDP), in this part of the country need to be restructured to ensure that they reach and benefit vulnerable groups.

Even at the average GDP growth rate of 6.9 percent attained during the 1990s, it would take Uganda about 20 years to double average per capita income. With population growth rate at 3.2 percent a year, one of the highest population growth rates in the world, it is going to be very difficult to reduce poverty (World Bank 2007).

Uganda's 3.2 percent annual population growth thwarts development, especially in social services provision and social outcomes. Unless efforts at reducing the high population growth rates are intensified, many of the MDGs will be difficult to achieve.

Inadequate transformation of the agriculture sector

Land reform is a critical factor that will ensure sustainable agricultural productivity and facilitate commerce and agriculture. Such reform would involve the government buying out landlords in order to consolidate the small plots on which many rural farmers depend to enable commercial agriculture. The government could also try to draw the rural population to urban centers through more planned urban development.

Other factors explaining low agricultural productivity include poor inputs, undeveloped value chains, and low public and private investment in the sector. The issue of low productivity in agriculture will need to be addressed by, for instance, accelerating the creation of on-farm and off-farm processing zones to add value to agricultural commodities, financing activities along the entire value chain as opposed to funding on-farm activities only, and land reforms that will allow commercial agricultural production as articulated in the National Development Plan (Republic of Uganda 2010).

Weak infrastructure

Uganda's infrastructure is among the worst in the world (Republic of Uganda 2010; World Bank 2007). The National Development Plan identifies weak infrastructure as one of the key binding constraints in Uganda. Roads, power and railways are all below those of Uganda's neighbors, with grave implications for the economy.³ The National Development Plan identifies the most challenging infrastructural impediments as power, transport, and access to and the high cost of finance, in that order. Efforts to address infrastructure

constraints by increasing sector funding represent a move in the right direction and should be followed by prudent use of the resources by responsible agencies to avoid leakages, which have often derailed service delivery. Regional infrastructure also remains a key challenge, especially for boosting regional trade.

Lack of sufficient private sector development

Private sector growth has been impressive since liberalization, but Uganda's economy remains dominated by small firms that usually employ fewer than five people, making it difficult to absorb the growing number of graduates and exacerbating the youth unemployment problem. In addition, although the private sector has played a significant role in areas such as education and health services, it has not been prominent in other sectors that require significant investments, such as energy, and even in sectors in which the private sector is active, the impact of its activities on employment creation has been limited. Enlarging the role of the private sector calls for more active participation of the government under private-public partnership arrangements.

Government development programs and successive generations of Country Strategy Papers have emphasized the development of the private sector as a major goal for the country. But progress has been slow in this area, partly because of weak human and institutional capacity, which limits private sector participation in execution of contracted or self-initiated projects. Further limiting the growth of the private sector is the poor state of the financial sector, which limits access to credit. Equity finance is also lacking, and small businesses have limited access to commercial banking facilities. It is important that the government expedites the recapitalization of the Uganda Development Corporation and the Uganda Development Bank to make private sector access to credit easier.

Narrow export base and terms-of-trade vulnerability

Despite the diversification of its export base, Uganda remains heavily dependent on primary commodities. Diversification of the export base is of paramount importance. The factors that continue to constrain export diversification include the primary and low-value-added nature of Uganda's exports, poor product quality, and poor regulation standards, which inhibit competition in marketing and export of primary commodities.

Low tax revenue

Tax revenue in Uganda is low, the result mainly of untaxed sectors, especially informal businesses and some agricultural activities, and tax evasion (Sennoga, Matovu, and Twimukye 2009). The lack of revenue has translated into an unending dependence on foreign aid, which accounted for about 32 percent of the budget in 2008/09. In 2007/2008 tax revenue amounted to about 12 percent of GDP. This figure is low relative to Uganda's neighbors (tax revenue was about 17 percent of GDP in Tanzania and about 27 percent of GDP in Kenya for the same period). Lack of adequate tax revenues constrains government operations and weakens economic management. It also increases government reliance on foreign aid to finance development, making economic management more difficult.

The recent discovery of oil in Uganda could significantly boost the resources mobilized domestically, widening resources available to finance Uganda's development agenda. The government could also try to expand the tax base, by targeting sectors that are currently untaxed, especially the informal sector, and setting up regulation to reduce tax evasion.⁴

Corruption and weak governance

The government has made numerous efforts to strengthen good governance, by allowing civil society organizations to participate more in planning and budgeting and by setting up institutions to strengthen accountability. Such initiatives included the creation, in 2008, of the anticorruption court to handle corruption-related cases and the value-for-money audit unit in the Auditor General's office to check on government spending at all levels. Uganda has also adopted a national anticorruption strategy.

These efforts notwithstanding, the perception remains that corruption is rampant, and the government has come under pressure from several quarters to show more political will to address the problem. Uganda's ranking on the Ibrahim Index of African governance improved from 27th in 2007 to 19th in 2008. But in May 2009, Transparency International ranked Uganda the third most corrupt country in the world. And although there has been considerable progress in tax administration with the formation of the Uganda Revenue Authority in 1991, tax policy and administration remain issues as they relate to revenue mobilization, partly because of corruption within the tax body. In 2010 Transparency International ranked Uganda's revenue authority the second most corrupt tax body in East Africa (Transparency International 2010).

More needs to be done to improve governance in Uganda, where civil society organizations are weak and the legislature often fails to rein in Uganda's powerful executive. Unless governance is strengthened, even increased resources may fail to bring meaningful development to Uganda.

Weak human and institutional capability

Uganda's Five-Year National Development Plan 2010–15 identifies weak human and institutional development as one of the economy's key binding constraints. Most public sector departments are characterized by coordination failures, corruption, endemic malaise, and weak institutional linkages among relevant stakeholders, including the Ministry of Finance Planning and Economic Development, sector line ministries, and the private sector. As a result, budgeting processes are inefficient, and scarce investment resources are not allocated rationally. Problems are particularly acute at the local government level. The central government needs to address these problems as it devolves planning, delivery, and management of basic services to local governments (EPRC 2010). There is a need to increase human and institutional capacity to meet the growing needs of local governments as the scope of their functions broadens.

CONCLUSION

Uganda has experienced relatively strong growth and poverty reduction since the 1990s. The growth period was characterized by sustained macroeconomic stabilization, adjustment, and structural reform efforts, which had a large impact on most sectors. Efforts included price liberalization, financial sector liberalization, public enterprises reform, and reform of the civil service.

Growth has been accompanied by rising inequality and very high unemployment levels, however, especially among youth. Moreover, growth has been registered in sectors (particularly services) whose contribution to employment is limited. More needs to be done to translate impressive performance at the macro level into improvements in the welfare of the majority of Uganda's people, especially the rural poor.

Looking forward, Uganda needs to address several issues in order to enjoy equitable growth. First, policy makers need to increase the pace of transformation of the agricultural sector and strengthen the sector's weak link to industry, where outputs from agriculture can be used as inputs. Given that the sector employs 70 percent of the workforce, doing so would spur equitable growth and reduce high unemployment.

Second, policy makers have to find new ways to mobilize domestic revenues to finance the budget. To address the growing trade deficit, Uganda should continue diversifying its export base into higher-value-added products. Third,

policy makers also need to address other key challenges, including weak human and institutional capability, a weak private sector, poor infrastructure, poor governance, and high population growth rates.

ANNEX 2.A

Table 2.A1 GDP in Uganda, by Economic Activity, 2001/02–2008/09
(percent, at constant 2002 prices)

Item	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
GDP at market prices	8.6	6.6	6.8	6.3	10.8	8.4	9.0	7.2	5.8
Agriculture, forestry, and fishing	7.1	2.1	1.6	2.0	0.5	0.1	1.3	2.5	2.1
Cash crops	12.5	3.2	7.3	-5.5	-10.6	5.4	9.0	5.6	-2.9
Food crops	5.7	2.2	-1.5	-0.2	-0.1	-0.9	2.4	2.6	2.7
Livestock	4.0	3.5	4.7	3.0	1.6	3.0	3.0	3.0	3.0
Forestry	6.8	5.2	3.1	6.5	4.1	2.0	2.8	6.3	2.4
Fishing	13.8	-4.3	9.6	13.5	5.6	-3.0	-11.8	-0.7	2.6
Industry	7.4	9.5	8.0	11.6	14.7	9.6	9.1	5.8	8.9
Mining and quarrying	12.2	12.8	1.7	27.2	6.1	19.4	3.0	4.3	12.8
Manufacturing	6.7	4.4	6.3	9.5	7.3	5.6	7.6	10.0	5.9
Formal	7.7	4.6	8.3	11.8	7.8	4.9	9.2	12.0	6.1
Informal	4.5	4.0	1.7	3.6	6.0	7.7	3.3	4.4	5.5
Electricity supply	-1.7	3.7	7.7	2.1	-6.5	-4.0	5.4	10.6	8.9
Water supply	3.0	3.9	4.2	3.9	2.4	3.5	3.8	5.7	2.7
Construction	10.1	14.6	10.0	14.9	23.2	13.2	10.8	3.7	10.9
Services	11.0	7.4	7.9	6.2	12.2	8.0	10.2	8.8	5.8
Wholesale and retail trade; repairs	7.4	5.1	6.3	7.2	12.3	10.4	14.7	9.7	-0.3
Hotels and restaurants	2.8	8.2	9.5	6.5	8.7	11.3	10.7	4.5	4.5
Transport and communications	17.8	14.9	15.8	9.8	17.1	17.7	21.3	14.3	15.1
Road, rail, and water transport	6.0	5.6	8.9	6.7	12.8	9.5	20.8	12.9	2.8
Air transport and support	0.5	5.8	13.8	19.4	6.9	13.8	17.8	-3.6	-1.2
Posts and telecommunication	76.5	40.4	28.6	11.8	26.2	29.1	22.6	19.8	30.3
Financial services	32.6	13.2	0.0	13.0	31.7	-11.9	17.1	25.4	21.1
Real estate activities	5.4	5.5	5.5	5.5	5.6	5.6	5.6	5.7	5.7
Other business services	11.6	7.6	7.0	9.2	12.5	8.0	10.8	12.4	10.4
Public administration and defense	20.4	3.6	7.7	-5.4	15.8	-6.3	12.1	5.5	3.9
Education	14.2	7.2	9.1	4.4	9.4	10.6	-6.5	4.3	-0.5
Health	18.0	13.7	0.9	5.6	12.9	2.7	-4.8	-3.2	11.0
Other personal services	8.5	8.5	16.1	15.0	14.1	13.4	12.8	12.3	11.8

Source: Bank of Uganda 2009.

Table 2.A2 Composition of Uganda's Exports, 1997/98–2008/09
(percent)

Year	Coffee exports	Noncoffee exports	Informal cross-border exports
1997/98	58.7	41.3	0.0
1998/99	55.9	44.1	0.0
1999/2000	42.0	56.6	1.3
2000/01	24.5	75.5	0.0
2001/02	18.1	81.9	0.0
2002/03	20.8	77.9	1.3
2003/04	17.0	78.4	4.6
2004/05	16.3	71.4	12.3
2005/06	16.6	67.3	16.0
2006/07	15.2	67.4	17.4
2007/08	13.4	45.4	41.2
2008/09	10.9	38.9	50.2

Source: Bank of Uganda.

Table 2.A3 Poverty Headcount, Poverty Gap, Poverty Severity, and Income Inequality Estimates, 1992/93–2005/06

Region	Poverty headcount					Poverty gap					Severity of poverty					Gini coefficient				
	1992/93	2002/03	2005/06	2009/10	1992/93	2002/03	2005/06	2009/10	1992/93	2002/03	2005/06	2009/10	1992/93	2002/03	2005/06	2009/10	1992/93	2002/03	2005/06	2009/10
National	56.4	38.8	31.1	24.5	20.9	11.9	8.7	6.8	10.3	5.1	3.5	2.8	0.365	0.428	0.408	0.426	0.365	0.428	0.408	0.426
Rural	60.3	42.7	34.2	27.2	22.6	13.1	9.7	7.6	11.2	5.7	3.9	3.1	0.328	0.363	0.363	0.375	0.328	0.363	0.363	0.375
Urban	28.8	14.4	13.7	9.1	8.7	3.9	3.5	1.8	3.7	1.6	1.4	0.6	0.396	0.483	0.432	0.447	0.396	0.483	0.432	0.447
Central	45.6	22.3	16.4	10.7	15.3	5.5	3.6	2.4	7	1.9	1.3	0.8	0.395	0.46	0.417	0.451	0.395	0.46	0.417	0.451
East	58.8	46	35.9	24.3	22	14.1	9.1	5.8	10.9	6	3.4	2.1	0.327	0.365	0.354	0.319	0.327	0.365	0.354	0.319
North	73.5	63	60.7	46.2	30.3	23.4	20.7	15.5	15.8	11.5	9.2	7.3	0.345	0.35	0.331	0.367	0.345	0.35	0.331	0.367
West	52.7	32.9	20.5	21.8	18.7	8.5	5.1	5.4	9.0	3.3	1.8	2.0	0.319	0.359	0.342	0.375	0.319	0.359	0.342	0.375

Source: Sewanyana and Okidi 2007.

Note: The poverty headcount is the percentage of people estimated to be living in households with real private consumption per adult equivalent below the poverty line for their region. The poverty gap is the sum over all individuals of the shortfall of their real private consumption per adult equivalent and the poverty line divided by the poverty line. Severity of poverty is the squared poverty gap (the sum over all individuals of the square of the shortfall of their real private consumption per adult equivalent and the poverty line divided by the poverty line).

Table 2.A4 Targets for and Status of Progress toward Millennium Development Goals and Poverty Eradication Action Plan (PEAP)

MDG/target/indicator	1990	2005/06	2009/10	2007/08 PEAP target	2013/14 PEAP target	2015 MDG target	Target possible at current trend?	Target possible with better policies, institutions, and additional funding?
1. Eradicate extreme hunger and poverty: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day								
1.1 Poverty headcount ratio (percent)	56	31.1	24.5	n.a.	28	28	Met	Yes
1.2 Prevalence of child malnutrition (percent of children under five)	23	23	n.a.	n.a.	n.a.	12	No	Yes
2. Achieve universal primary education: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling								
2.1 Net primary enrollment ratio (percent of children 6-12)								
Boys	58	84	82.4	90	100	100	Yes	Yes
Girls	48	85	83.2	89	100	100	Yes	Yes
2.2 Primary completion rate (percent of boys and girls)	n.a.	56	n.a.	69	n.a.	100	No	Yes
3. Promote gender equality and empower women: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015								
3.1 Ratio of girls to boys in primary education (percent)	83	99	n.a.	100	100	100	Met	Yes
4. Reduce child mortality: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate								
4.1 Under-five mortality rates (per 1,000)								
4.1.1 Under-five mortality rate	177	152	n.a.	n.a.	n.a.	53	No	Uncertain
4.1.2 Infant mortality rate (per 1,000 live births)	98	88	n.a.	68	n.a.	32	No	Uncertain
4.3 Immunization against DPT (percent of all children)	45	83	n.a.	90	n.a.	n.a.	n.a.	
5. Improve maternal health: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate								
5.1 Maternal mortality ratio (modeled estimate, per 100,000 live births)								
5.1.1 Maternal mortality ratio	n.a.	505	n.a.	354	n.a.	126	No	Uncertain
5.2 Deliveries in health care centers (percent of all deliveries)	n.a.	24	n.a.	50	n.a.	n.a.	Met	Yes
6. Combat HIV/AIDS, malaria and other diseases: Have halted by 2015 and begun to reverse the spread of HIV/AIDS								
6.1 Prevalence of HIV, total (percent of adult population)	20	6.2	n.a.	5	n.a.	<20	Met	Yes
7. Ensure environmental sustainability: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources								

(continued next page)

Table 2.A4 (continued)

MDG/target/indicator	1990	2005/06	2009/10	2007/08 PEAP target	2013/14 PEAP target	2015 MDG target	Target possible at current trend?	Target possible with better policies, institutions, and additional funding?
7.1 Forest area (percent of total land area)	n.a.	24	n.a.	27	30	>24		
7.2 Access to safe water (percent of population)								
Urban	45	86.8	92.3	100	n.a.	90	Yes	Yes
Rural	45	63.6	69.5	90	n.a.	90	Yes	Yes
7.3 Access to improved sanitation (percent of population)								
Urban	n.a.	65	n.a.	100	n.a.			
Rural	n.a.	55	n.a.	80	n.a.			
7.4 Tilled land (percent of land)	n.a.	13	n.a.	17	25			
8. Develop a global partnership for development								
8.1 Debt service (percent exports of goods and services)		305		238	187		Yes	Yes

Source: 2004 PEAP; Uganda Bureau of Statistics various years.

Note: n.a. is not applicable. PEAP is Poverty Eradication Action Plan.

NOTES

1. Some reversals in the decline occurred during this period: the share of poor people rose from 34 percent in 1999/00 to 38 percent in 2002/03 (Appleton and Ssewanyana 2004).

2. The program targeted relaxation of marketing infrastructure constraints, production and dissemination of technology, removal of financial constraints, improvement of land tenure and policy, formation of farmers organizations, improvement of human resources and information, promotion of on-farm and off-farm storage, and efforts to reduce environmental degradation and mitigate the effects of HIV/AIDS.

3. Electricity coverage stood at 8 percent of the population in 2009, far below coverage in other low-income countries, which stands at 35 percent. At 190 meters per square kilometer, the density of roads in Uganda is much higher than in the average low-income country (where the average is 126 meters per square kilometer), but the roads are of poor quality, with only 4 percent of the road network paved. Only 26 percent of the railway network in Uganda is functional. Access to improved water stands at 51 percent of the population, far below the 64 percent for the average of a low-income country (Republic of Uganda 2010).

4. Taxing the informal sector could be implemented by taxing small establishments based on characteristics such as turnover, profits, and location of business.

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