5. UGANDA

Rujumba George Williams

5.1 Introduction

Uganda, popularly referred to as 'The Pearl of Africa' is a small landlocked country covering a total area of 242,554 square kilometers, 17 percent of which is under water and marshland and 31.1 percent under forest cover. It is located in East Africa astride the equator and approximately between: 30 degrees and 35 degrees east of Greenwich and 4 degrees North and 1 degree, 30 minutes South of the equator. This is the region commonly referred to as the Great Lakes region due to the numerous lakes that characterizes it.

Much of Uganda is a plateau 1000m to 3000m above sea level. There are numerous hills, valleys and extensive savannah plains and high mountains. Most of the eastern and northern regions are characterised by vast plains with occasional hills raising above these plains. The massive Mt. Elgon (Masaba) at 4321m along the border with Kenya creates the difference breaking the monotony of the plains. The central regions on the other hand, are dominated by L. Victoria (the second largest fresh water lake in the world) and the River Nile basin with numerous hills and swamps, especially papyrus swamps. In huge contrast, in the western and mid-western parts of the country are found beautiful volcanic highlands and rolling hills. There are also many small lakes and various volcanic features. The region is however dominated by the western rift valley-part of the Great Rift Valley system and Mt. Rwenzori ranges (popularly called the Mountains of the Moon) with its snow-capped peaks, which raises to 5176 m above sea level. Also in the extreme southwest are the Virunga ranges with the highest peak at Mt. Muhavura raising to 4127m above sea level. The mid western part lies in an earthquake zone with numerous tremors felt regularly. Two very strong earthquakes have been experienced in the recent years- 1966 and 1994 with some high degree of destruction.

5.1.1 Climate and Vegetation

Uganda's climate and vegetation varies from region to region depending on the altitude above sea level and the effects of water bodies. However, there are two major climatic regions:

1- The Northern and parts of Eastern Uganda with two seasons: one very long rainy season and one very long dry season each year.
2- The western, central and some parts of eastern Uganda with two rainy and two dry seasons in a year.

However, in the west and extreme southwest, some areas experience a sort semi temperate climate which becomes more pronounced on the slopes of Mt. Rwenzori and the southwestern highlands. On average, the rainfall through out the country ranges between 1000-1500mm per annum, though some areas receive more than this amount. The mean average temperature ranges between 15-27 degrees Celsius, though in the northern and eastern regions it can raise to about 32 degrees Celsius especially during January and February. This variety of climate accounts for the range of agricultural products that can be found in Uganda, which varies from purely tropical crops like coffee and banana to temperate crops like barley and wheat.

The vegetation also varies in accordance with the variation in climate and altitude above sea level. In Uganda, you can find typical equatorial forests, tropical savannah vegetation and vegetation typical of temperate and alpine regions especially in the western highlands and on the high mountain ranges in the east and west.

5.1.2 Population

The 1997 estimates put Uganda's population at around 20 million with a density of about 104 persons per square kilometer. Of the total, 49% are males and 51% female. Also, about 48.8% are below 15 years of age. There are 52 different ethnic groups with almost an equal number of local dialects. To solve the communication problem, Swahili and English are used as official languages.

5.1.3 Brief History

Uganda as a unified state, like many African countries was a result of the partition of Africa by European powers in the last half of the 19th century. Till independence on October 9th, 1962, Uganda remained a British protectorate for 76 years. It was during the colonial days when former British Prime Minister Winston Churchill called Uganda 'The Pearl of Africa' after being stunned by the country's beauty. However, the history of independent Uganda since 1962 has not been a 'bed of roses'. To sum it up, it has been a history of upheavals and civil strife.

Mainly because of the legacy of British colonial system which was basically a divide and rule method, institutions were polarized on tribal lines, for instance, the security agencies, the army and the police were made the domain of the tribes from the north and east; the civil service and education, for people from central and west, then agricultural manual labor for people from the south west. At independence, again a situation where there was a state within a state was left behind. The Buganda Kingdom was given a status that made it a powerful kingdom within a Republic. All these combined led to political instability by 1966. In th power struggle that ensued during 1966, the Prime Minister staged an internal coup and abolished the special status of some kingdoms as inherited at independence. This was the beginning of the political and economic turmoil that was to characterize the country for well over twenty years to come.

On 25th, January 1971, Uganda saw yet the dawn of another dark stage in her political demise. The army headed by Idi Amin, a semi illiterate former sergeant in the British King's African rifles, assisted by some foreign elements overthrew the government while the President was attending a Commonwealth summit in Singapore. He turned out to be the worst dictator the African continent has seen. The period 1971 to 1980 marked the sharpest economic decline in the history of Uganda. Amin expelled the European and Asian communities who formed the backbone of the country's formal economy and declared what he termed the 'Economic War' which was supposed to Africanise the economy. However, as it turned out, it instead became a 'war to destroy the economy'. Whole businesses and factories were indiscriminately and systematically handed over to illiterate relatives of Amin or nationalised and put under the management of incompetent and illiterate soldiers or relatives of the president. The results were catastrophic to say the least. Even in government Amin surrounded himself with equally illiterate soldiers. The educated were systematically purged out of government. Some were killed and others managed to escape into exile in neighboring countries, Europe and the US. It is estimated that more than half a million people were killed by Amin's`government.

On April 11th, 1979, a combined force of Ugandan exiles and Tanzanian troops overthrew Amin after a war lasting about six months. By this time, there was no economy worth talking about in Uganda. In effect, everything had ground to a halt and Amin had turned Uganda into a 'pariah' state and withdrawn it from the civilized community of nations. Unfortunately, however, the immediate post Amin era was marked by a lot of political instability and infighting among various groups that had fought the dictatorship as a coalition such that within one year and a half, the country had four governments.

In 1980, elections were held on a multi party basis, but were marred by open rigging by the UPC party of the former president Dr. Obote who went ahead to form what came to be called the Obote two government 1980-85. This also became a period characterized by further economic decline, repression and civil strife with guerilla forces fighting the government. In July 1985, his army like in 1971 again overthrew Obote. In turn, the military junta that overthrew him was itself routed by the National Resistance guerilla forces of the current president Yoweri Museveni in January 1986.

The period 1986 to date is what is worth calling ‘positive’ post independence Uganda. Though still some pockets of instability exist especially in the northern and western parts of the country due to historical legacy, Uganda is now a respected nation in Africa. The government has tried to reverse the trend of the last thirty years but it has not been an easy task. It is like having a several storey building destroyed and a deep crater put in its place. Reconstructing the building again would require starting at the bottom of the crater, and then going up until the building is restored as it was before. The above scenario best describes the recent economic recovery of Uganda, which has averaged about 5 percent per annum. The actual task involved moving the economy to where it had reached in 1969, then move on if meaningful economic growth is to be realized. The biggest challenge to the new government was moral rehabilitation. Together with general economic decline, had gone the moral fabric of the Ugandan people. The new government started with a heavily Marxist orientation in 1986/87, with all the rhetoric of Marxism and barter trade but made a turn around in 1989 and embraced the IMF and World Bank structural adjustment programs for economic reform with all the zeal. The economy has since been liberalized, most state enterprises privatised, currency controls removed, tax reforms carried out, properties expropriated by the Amin government returned to their owners and the press allowed a free role in the economic and political life of the country.

5.2 The Economy: A Historical Perspective of the Macro Economic Activity and Fiscal Position

A current analysis of Uganda’s macro economic activity and fiscal position without an insight into the country’s economy prior to 1986 would be doing a lip service to oneself. The legacy of the regimes between 1971 and 1986 must be brought into perspective in order to appreciate the current macro economic situation of the country.

Uganda is basically an agricultural economy, which currently accounts for 42 percent of GDP. The country’s dismal economic performance between 1971 and 1986 sparks shock waves in the mind of anybody who new Uganda just before 25th January 1971, that fateful day when Amin came to power. Unfortunately, the statistics covering this period are very scanty and even when found, are not reliable. During the Amin dictatorship, Uganda had one of the sharpest peacetime economic decline of any nation in the 20th century. The nation’s economy virtually vanished into thin air. Where as between 1962 and 1970 Uganda had enjoyed relatively rapid economic growth, by 1979 there was no economy to talk about and the situation was not much different by 1985. By 1979, almost every manufacturing industry ranging from those for essential goods to those of capital goods had closed down due to shortage of foreign exchange, mismanagement and lack of raw materials. Coffee export, which was the mainstay of the economy, had virtually ground to a halt and replaced with smuggling of the coffee to neighboring countries. All essential goods like sugar, salt, clothing and building materials were almost unavailable except for the military establishment. In fact, thanks to nature. Uganda does not easily run short of food due to the good climate and fertile soils she is endowed with. People could still survive, though on subsistence agriculture. Subsistence agriculture remained the only sector of the economy still operating. The 1979 war of liberation compounded the already bad situation as even the little remaining social and economic infrastructure was destroyed. Towards the end of the military regime in 1979, inflation ruled the daily life in the country caused by the bottlenecks on the supply side of the economy and the indsciplined printing of bank notes by government.

Prospects for growth during the 1970's and early 1980's were a dream for Uganda. A look at some few statistical indicators can tell part of the story. For instance, in just 2 years 1978-1980, GDP declined by 14 percent; 1984-1985 GDP fell by 10 percent and in 1985 alone, GDP fell by 5.5 percent.

Table 5.1 Gross Domestic Product at Factor Cost by Industry: 1978-1985

(U.Shs.million at 1966 prices)

Industry peak btn. 1966/85										
	year	value	1978	1979	1980	1981	1982	1983	1984	1985
Monetary economy										
Agriculture	1973	1,795	1,462	1,318	1,234	1,221	1,401	1,416	1,308	1,250
Cotton, coffee & sugar processing	1970	114	39	43	43	31	43	41	41	41
Forestry, fishing & Hunting	1984	129	126	104	100	101	104	106	128	101
Mining and quarrying	1970	119	15	8	6	6	7	7	7	5
Manuf. Of food products	1972	63	29	10	9	10	16	17	18	20
Miscellaneous manufacturing	1971	482	304	193	209	206	223	232	241	206
Electricity	1970	100	92	65	78	96	90	81	93	89
Construction	1969	109	39	30	25	25	28	32	34	31
Commerce	1971	940	646	580	508	491	543	575	533	456
Transport &Communication	1974	346	167	134	168	182	200	211	212	201
Government	1985	932	800	840	882	890	900	909	923	932
Misc. services	1972	502	262	270	278	280	319	343	370	396
Rents	1978	352	352	282	282	283	295	308	321	335
Total Monetary Econ.	**1971**	**5,252**	**4,333**	**3,877**	**3,822**	**3,822**	**4,169**	**4,278**	**4,229**	**4,063**
Non-Monetary Econ:										
Agriculture	1983	2,309	2,291	1,872	1,734	1,962	2,133	2,309	1,957	1,738
Forestry, fishing &Hunting	1985	230	198	203	209	216	216	219	226	230
Construction	1979	42	40	42	12	13	15	15	16	16
Owner-occupied houses	1985	369	319	336	338	338	340	350	359	369
Total Non-Monetary	**1983**	**2,893**	**2,848**	**2,453**	**2,293**	**2,529**	**2,704**	**2,893**	**2,558**	**2,353**
GDP	***1972***	***7,542***	***7,181***	***6,330***	***6,115***	***6,351***	***6,873***	***7,171***	***6,787***	***6,416***
Per capita GDP (Shs.)	**1971**	**775**	**588**	**509**	**478**	**483**	**509**	**516**	**475**	**437**

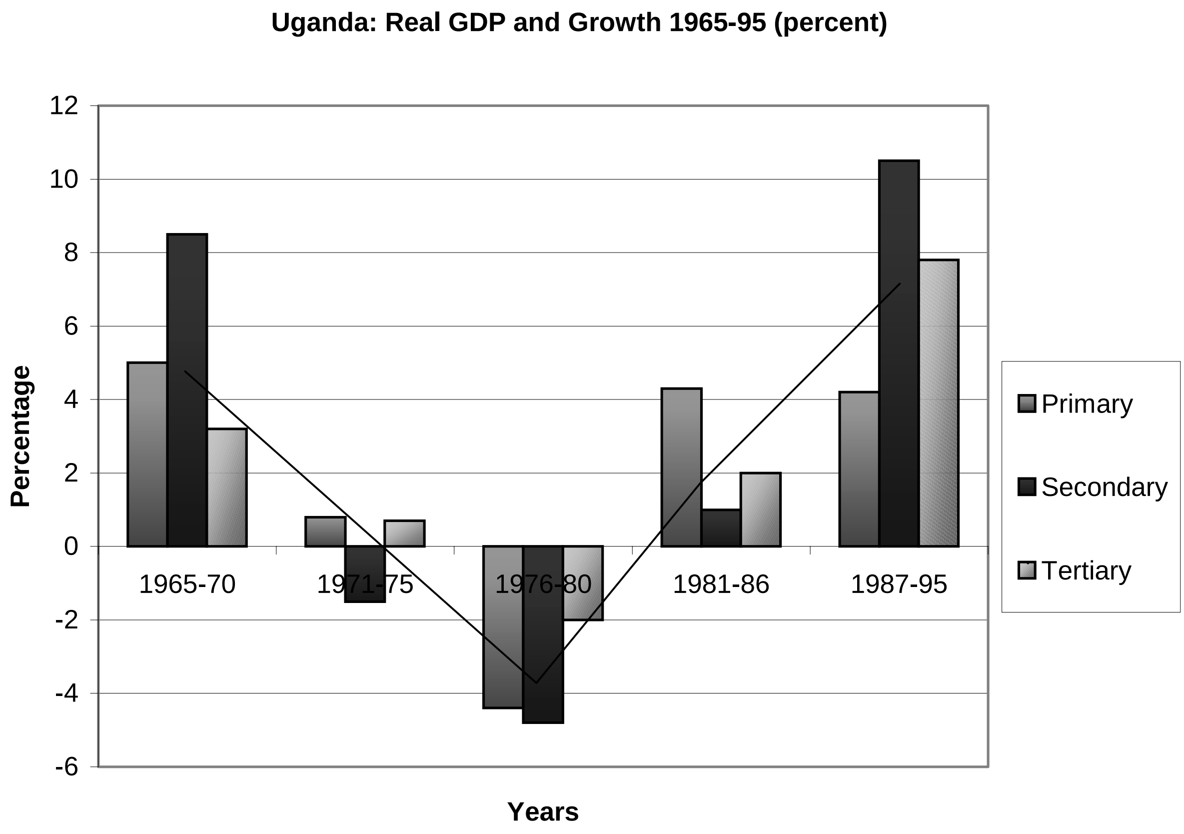
Source: *Background to the Budget 1986/87,* Ministry of Finance and Economic Planning.

Table 5.1 above shows the GDP at factor cost by industry 1978-1985. As can be seen from the table, the monetary economy shrunk throughout the period under consideration with the exception of elements like rents, miscellaneous services and the government. Similarly, the non-monetary economy also showed dismal performance with a general decline though with some slight improvement between 1982-1985. Figure 5.1 below also gives some insight into the country's economy between 1965 and 1995.

One other important phenomenon worth noting from the table is the fact that most of the GDP indicators shown peaked in the early 1970's. To be very specific, between 1969 and

1973. This implies that for the rest of the years not shown, it was all a declining trend.

Figure 5.1 GDP at Factor Cost



Key: _________ GDP growth

Source: *Adjustment for growth-The African Experience*, Occasional Paper 143, October 1996, IMF.

The other macro economic indicators also reflect a negative trend for this period. As table two below shows for example, the overall balance of payments for the years 1981-85 both on current and capital accounts was largely negative save for a short spell in 1984/85 when there was a small BOP surplus.

Table 5.2 Uganda Balance of Payments 1981-1985 (US $ millions)

Year	Exports	Imports	Trade Balance	Net Services	Net Transfers	Balance
1981	245.5	414.7	-169.2	-122	120.6	-170.6
1982	347.1	422	-74.9	-102.3	107.3	-69.9
1983	367.7	428.1	-60.4	-115.4	103.5	-72.3
1984	407.9	342.2	65.7	-44	85.4	107.1
1985	379	264	115	-98.9	61	77.1

Source: Ministry of Finance and Economic Planning Uganda.

Recurrent revenue performance during this period was very low compared to the combined recurrent and development expenditure. For the financial year 1985/86, total revenue collections for the central government amounted to only U.Shs. 258,050 million, which was 51.3 percent of the total government expenditure of U.Shs. 502,794 million over the same period. Savings and investment were almost impossible given the volatile economic and political situation at the time. In any case, the levels of income could only support subsistence. Inflation was rife due to the acute shortage of supplies coupled with unreasonable government monetary policies. Governments of the time continued to expand money supply even when real GDP was declining, which resulted in spiraling inflation. For instance, in a period of just over a year in 1985, money (currency in circulation and bank deposits) increased by 90 percent from Shs. 111.5 billion to Shs. 211.3 billion, while currency in circulation alone nearly doubled during the same period from Shs. 43.9 billion to Shs. 80.7 billion. These examples can create the real picture of the level of inflation especially if one maps out an economy bedevilled by low production, acute shortage of foreign exchange and therefore, a serious shortage of supplies of goods and services. Unemployment was widespread. With regard to interest rates, though the average rate of about 18 percent between 1982 and 1984 and between 25-42 percent by 1986 looks high, it was a negative rate in real terms given that during the same period, inflation averaged 160 percent. So, the influence of interest rates on savings was eliminated by this state of economic affairs. On the fiscal side, there were persistent budget deficits throughout this period, which were largely covered by borrowing from the Central bank, which in turn compounded the already out of hand problem of inflation and depreciated the Uganda Shilling even further.

5.2.1 Foreign Exchange System

Between 1981 and 1984, the exchange rate was heavily used as an instrument of economic policy. The Uganda Shilling was devalued in 1981 from Shs. 8 to the US Dollar, to Shs. 78 per US dollar and eventually to Shs. 94.17 per dollar. In 1982, a dual exchange rate- window 1 and window 2 was introduced. Window 1 was a managed float system mainly for foreign exchange proceeds from traditional exports, central bank loans and foreign exchange for debt servicing. The second window exchange rate was determined at weekly auctions of foreign exchange by the central bank and it was for all other transactions. Unfortunately, the foreign exchange was mainly for importation of consumer goods and not capital goods. Also, the allocation during auctions did not depend on genuine competitive bids but on political identity. In 1984, the two windows were merged. The Uganda shilling continued to depreciate. By June 1985, it was U.Shs. 600 per dollar and U.Shs. 1480 per dollar by February 1986.

5.2.2 The Period after 1986 –A Summary

The new government, which came to power in January 1986 therefore, inherited a shattered economy. The social and economic infrastructure was broken down and so had the society's moral fabric due to many years of political turmoil. The government at first had a Marxist ideology. However, later they changed and embraced the IMF and World Bank economic reform prescriptions with zeal. The following is a brief summary of the key changes between 1987 and 1992.

- In 1987, the government launched the Economic Recovery Program (ERP), which was aimed at creating a viable and self-sustaining economy. It had the following elements:
  a) Promotion of exports by decreasing the difference between the official and the free market exchange rates and liberalising foreign exchange.
  b) Restoration of producer incentives in agriculture by removing price controls and abolishing parastatal marketing monopolies.
  c) Encouraging foreign investment by seeking to solve the issue of compensation for Asian properties expropriated under Amin's regime.
  d) Reformation of budget procedures to increase revenue and improve expenditure controls and to reduce inflation by curbing monetary expansion.

The ERP received support from the IMF under the Enhanced Structural Adjustment Program (ESAP), which, together with credits from IDA generated funds flow into the country in form of balance of payments support and project assistance.

Under the ERP:

- In 1987, a comprehensive currency reform was carried out which involved exchanging Shs. 100 old currency for Shs. 0.07 (7 cents) new currency. This reduced inflation though temporarily as it decreased the currency in circulation. However, due to the very bad economic situation and heavy government expenditure in the early days of consolidating their control of the country, inflation went up again by mid 1988.
- 1989 saw the beginning of the liberalisation of the economy, which continues up to today.
- In 1990, the program to reform the public sector and cut government expenditure was launched. Exchange policy liberalisation and establishment of the forex bureaus started.
- 1991, Taxation reforms with the establishment of the Uganda Revenue Authority to improve on revenue administration and collection. There were also financial sector reform which saw an increase in the autonomy of the Bank of Uganda (Central Bank) and establishment of some new private commercial banks.
  - During the same year, the Uganda Investment Authority (UIA) was established to encourage foreign direct investment and improve processing of investment licences.
- In 1992, the Public reform and Divestiture effectively started with state enterprises being privatised in a process that still is going on.

There has been a lot of macro economic progress since 1987, though the fiscal position remains weak due to a small revenue base. However, use of expansionary monetary policy to finance budget deficits has stopped, production and export incentives have improved and the exchange rate is more stable.

5.2.3 Summary of Some Key Socio-Economic Indicators

Table 5.3

Sector/Area	Base	Period/Year	Ratio/Amount

Health	Doctors	1997	1 per 20,000 persons
	Hospital beds	1997	1 per 817 persons
	Infant mortality	1997	122
	Life expectancy	1997	Male: 44 years
			Female: 47 years
Population	Birth rate	1990-95	50.8 per 1000
	Ferility rate (average)	"	7.3 births/woman
	Death rate	"	21.8 per 1000
	Growth rate	"	2.9 percent
Education	Primary school enrolment	1997	5.3 million
	Literacy rate	"	Male: 73.7 percent
		"	Female: 50.2 percent
Energy	Electricity output	"	180 MW
	Accessibility to electricity	"	5 percent of population
	Fuel wood use	"	Over 90 percent "
Transport & Comm.	Paved roads	"	7.7 percent
	International Airport	"	1
	Telephone lines/capita	"	Very low
Water and Sanitation*	Rural	"	40 percent
	Urban	"	42 percent
Defense	Military expenditure	1995	2.3 percent of GDP
Finance	Tax revenue	1997/98	U.Shs. 810,523 billion
International Trade	Total exports f.o.b	1997/98	US $ 436.2 million
	Total imports c.I.f	1997/98	US $ 4373 million
GNP**		1997	US $ 6.6 billion
	Average growth rate	1996/97	5.3 percent
	Per capita income	1997	US $ 320***

Note: * This refers to ratio of the population with access to protected or piped water supplies and good sanitation.
** Ranked 84th in 1997
*** Ranked 113th in 1997 with annual growth of 2.3 percent

Source: Statistics Department, Ministry of Finance and Economic Planning, Uganda.
Encyclopaedia Britannica - 1994-1999.
WORLD Development Report 1998/99.

5.3 Macro Economic Activity

A. International Environment

A.1 Trade and Current Account Balance

Table 5.4 below shows a summary of the BOP and current/capital account position for the period 1993-98.

Table 5.4 Summary of balance of payments since 1993/94 financial year

(US $ mill.)

	FY 1993/94	*FY 1994/95*	*FY 1995/96*	*FY 1996/97*	*FY 1997/98*

Total Exports	**343.91**	**667.07**	**725.81**	**825.29**	**611.49**
Coffee	179.97	456.63	404.37	365.62	239.89
Non-coffee	84.71	138.63	186.16	305.72	193.31
Services inflows	79.23	71.81	135.28	153.95	175.29
Total Imports	**-887.26**	**-1368.37**	**-1616.04**	**-1651.25**	**-1821.27**
Government Imports	-179.47	-224.92	-266.47	-238.69	-243.46
Oil Imports	-55.07	-64.45	-89.98	-91.94	-93.71
Non Oil private Imports	-296.09	-532.09	-515.32	-519.72	-578.77
Other Imports	-170.91	-256.11	-358.15	-395.92	-457.05
Service outflows	-185.72	-290.81	-386.12	-404.98	-448.28
Trade Balance	**-543.35**	**-701.3**	**-890.23**	**-825.96**	**-1209.78**
Income (net)	-51.54	-63.5	-47.95	-16.16	-10.5
Current Transfers	448.63	527.91	705.79	620.72	836.93
Official Transfers	240.93	285.93	293.05	300.21	349.14
Private Transfers	207.7	241.98	404.13	320.52	487.2
Current Account	-146.26	-236.89	-232.39	-221.4	-383.35
Capital Transfers (debt relief)	45.83	41.2	52.2	53.31	40.55
Direct Investment	59.86	109.98	113.36	160	190
Medium & Long term loan	151.05	213.38	155.43	121.19	215.85
Inflows (credit)	245.69	306.53	239.23	229.61	302.82
Outflows (debit)	-94.64	-93.15	-83.8	-108.43	-86.97
Short term loan (net)	-26.68	-6.93	-69.04	-8.24	-20.82
Overall Balance	**92.66**	**130.05**	**19.56**	**104.84**	**42.24**
Financing Items	-92.66	-130.05	-19.56	-104.84	-42.24
Use of IMF credit (net)	17.64	18.79	22.04	12.09	-13.13
Change in gross reserves	-96.94	-170.44	-91.5	-142.2	-121.72
Exceptional Financing	33.63	22.31	35.62	17.37	4.88
Errors and omissions	10.91	-0.71	19.29	7.89	87.73

Note: 1997/98 are provisional figures
Source: Bank of Uganda.

As can be seen from the table, Uganda's balance of payments on current account continues to have a persistent deficit. Export growth has been low and as a matter of fact, exports fell between 1996/97 and 1997/98 financial years. This could probably be explained by several factors:

1) Uganda is just in the middle stages of economic recovery following almost three decades of political instability and general economic decay. Production in all sectors of the economy has just picked up but still prone to instability.
2) Uganda exports basically agricultural products and only a few other products like fish, gold, cobalt and electricity. The dominance of agriculture in the country's exports means that it is prone to the vagaries of nature like adverse weather (like it happened during the recent El-Nino). Secondly, the earnings depend on the fluctuations in world market prices over which the country has no control. For example, table 3a below, whereas the volume of coffee exports has grown, lower world market coffee prices imply that the revenue received is less than when the volume was lower but prices high.
3) Uganda imports mostly high value manufactured goods both capital and consumer. This is certainly bound to offset the trade balance.

4) The country being landlocked makes her exports less competitive as compared to other countries producing and exporting similar products but are not landlocked.

Table 5.5 Comparison between coffee exports by volume(million bags) and value

(US $mill)

Financial Year	1994/95	1995/96	1996/97
Volume (60 kg bag)	2.961	3.915	4.4
Unit value US $/kg	2.57	1.72	1.38
Total value	456.63	404.37	365.62

Source: Ministry of Finance and Economic Planning, Uganda.

This trend in the major export product is obviously bound to translate into balance of payments deficit. Though there has been a diversification in exports, coffee still plays a dominant role in export earnings accounting for 55 percent of total exports in the financial year 1997/98 as shown in table 5.5 below.

Table 5.6 Coffee Exports in comparison with total exports for some selected years

(US $ m)

	1984/85	1985/86	1994/95	1997/98
Total Exports	407.9	379	595.26	436.2
Coffee Exports	359	355	456.63	239.89
Share of Coffee (%)	88.1	93.68	76.71	55

Source: Background to the budget 1986/1998/99, Ministry of Finance.

The increasing role of the non traditional exports like fish, flowers, gold, electricity and food has helped ease what would have otherwise been a worse Balance of Payments position if the country was still relying on the traditional export of coffee, tea and cotton only.

Table 5.7 Composition of Exports of Merchandise

(US $ millions)

	1993/94	1994/95	1995/96	1996/97	1997/98
Total Exports	**264.68**	**595.26**	**590.53**	**671.34**	**436.2**
Coffee	*179.97*	*456.63*	*404.37*	*365.62*	*239.89*
Non Coffee	*84.71*	*138.63*	*186.16*	*305.72*	*196.31*
Cotton	4.29	3.31	13.26	25.74	14.51
Tea	12.1	11.69	12.52	12.03	19.57
Tobacco	5.91	8.09	7.94	8.61	12.19
Fish & its products	11.09	16.99	37.59	34.63	31.03
Hides and skins	6.73	10.41	8.86	7.84	12.55
Maize	14.01	20.15	9.43	16.53	8.24
Beans	10.47	11.7	7.48	5.98	5.59
Gold	0.96	12.44	35.15	110.54	20.07
Electricity	0.99	3.05	2.51	8.12	11.52
Flowers		2.02	5.36	5.25	8.27
Oil Exports	6.14	3.58	6.44	11.57	10.31
Others	12.03	35.19	39.61	58.88	42.46

Source: Ministry of Finance and Economic Planning.

Table 5.6 shows Uganda’s major exports for the years 1993/94 to 1997/98. A closer look at the table indicates that non-traditional exports are increasing in importance, though their role is still low. Nevertheless, this has reduced the percentage value previously held by coffee, cotton and tea. The 1997/98 balance of Trade position was compounded by the adverse El-Nino weather condition, which not only affected production but also the transport infrastructure in the country, such that transportation of agricultural produce from rural areas became very difficult and costly. The fall in the world market gold prices also affected the earnings from gold exports. Figures 5.2 and 5.3 show a summary of Uganda’s direction of trade.

There is still a large untapped and underdeveloped export potential for the country in agriculture and other primary products. For example whereas Uganda produces more Bananas than Kenya, she exports much less than Kenya. This may be due to the fact that there are few organised banana exporters in the country and the concerned departments of government have not done much to promote this potential export crop. Cotton used to a big foreign exchange earner. But now the production is below what it should be. This is largely due to the fact that the major cotton producing areas in the north of the country have been characterised by internal rebellions which have only subsided this year. The other major handicap is the poor transport infrastructure that hinders intending exporters from reaching the major producing areas. Tourism as an indirect export is also underdeveloped though it has the potential to even outstrip coffee as a leading foreign exchange earner. The volatile political and security situation in some parts of the country has only served to dampen the prospects for its growth.

Figure 5.2 Destination of Exports by Percentage

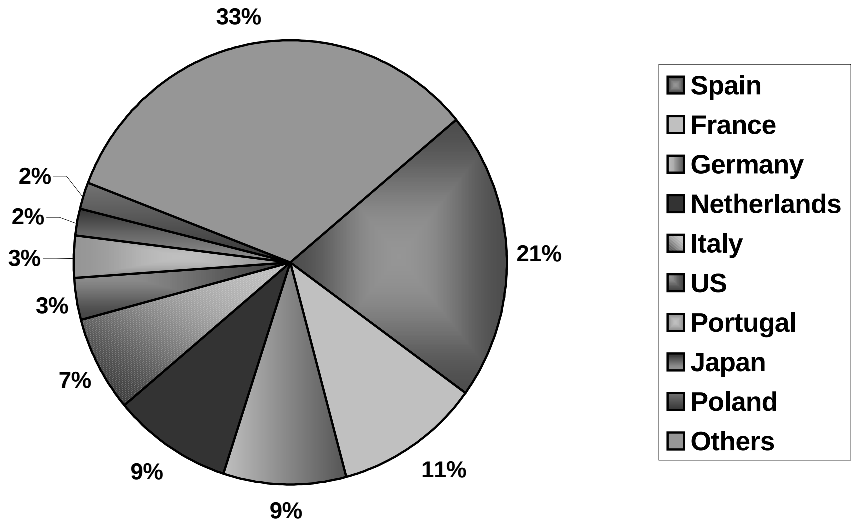
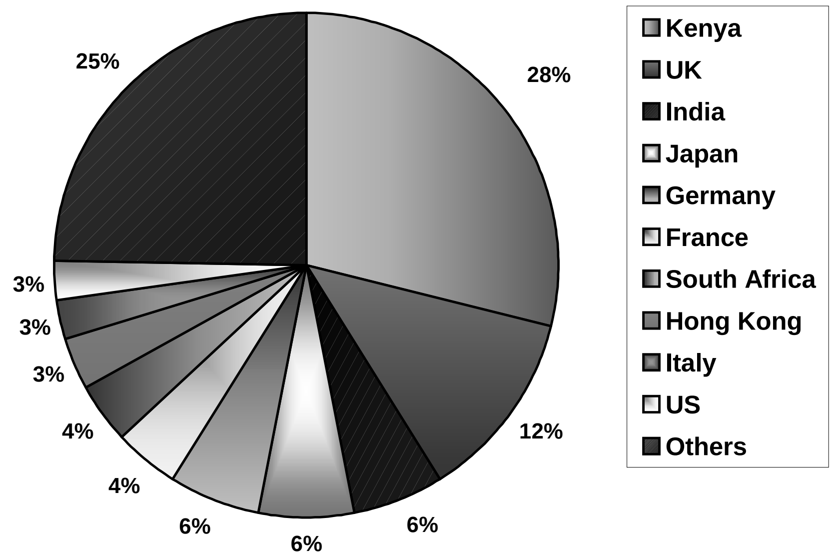


Figure 5.3 Imports by Origin Percent 1996



Source: Economic Intelligence Unit.

A.2 Exchange Rate and Exchange System

Since liberalisation of the exchange rate market in 1991 with the introduction of the private Forex bureaus, the exchange rate of the Uganda shilling against other currencies is determined by market forces. However, sometimes the Central Bank intervenes especially if the shilling is over appreciating or over depreciating, like the case was in 1997 and in May this year. This it does by sometimes auctioning hard currency. The introduction of the forex bureau system was to enable non-traditional exporters (including service industries like tourism) to have access to realistic market prices for their products so as to be more competitive than they would be under a heavily controlled exchange regime. It also helped in the elimination of the foreign exchange black market in which the hard currency was usually highly priced, leading to artificially high prices of imports in the home market. In effect, two exchange rates are in operation now. One is the forex bureau rate which is open to the general public. The other is the Bank of Uganda or the inter-bank exchange rates at which the central bank and commercial banks deal in foreign exchange amongst themselves. This usually offers banks hard currency at slightly cheaper rates than the rates in forex bureaus. Table 4 shows exchange rates of the Uganda shilling against the US dollar for some selected years.

Table 5.8 Average Exchange Rates Uganda Shilling to US Dollar for Selected Years to July 1998

Year	1990/91	1991/92	1993	1994	1995	1996	1997	1998
Forex Bureau	768.5	847.5	1217.33	1003.4	975.96	1057.96	1083.85	1150.63
Inter-Bank	540	640	1195.02	979.43	968.66	1048.43	1082.87	1150.3

Source: *Ministry of Finance and Economic Planning, background to the budget 1991/92-1998/99*, Bank of Uganda.

As can be seen from the table, the exchange rate has shown a fluctuating trend with the Uganda shilling losing between 1991-93 and then somehow making some gains against the dollar from 1993 to 1995. However, since the start of the 1998/99 financial year, the shilling has lost a lot of ground against the dollar. At the time of writing, it is trading in the range of US $ 1 for U.Shs. 1480-1500.This is probably due to the political and economic instability gripping the whole Great Lakes region in which Uganda is heavily involved.

A.3 Foreign Direct Investment

For the last thirteen years, the investment climate in Uganda has improved tremendously. Institutional and legal frameworks to make foreign direct investment easier have been put in place. With the opening up of the economy since 1989/90 and privatisation of state owned enterprises, the country has witnessed encouraging growth in foreign direct investment. Government divesting itself from state owned companies offered a lot of avenues for FDI in already existing businesses. However, the landmark in government's effort to encourage foreign direct investment into the country came in 1991 when the investment code was passed and the Uganda Investment Authority established by an act of parliament. This made it very easy for both foreign and local investors to obtain investment licenses. The main purpose for the establishment of the Uganda Investment Authority (UIA) was to create a 'one-stop shop' for investors where an investor can get:

- An investment license.
- A certificate of incentives covering issues like corporation tax, tax on dividends and others.
- Registration of agreements for transfer of foreign technology or expertise.
- Certificates of approval for externalisation of funds.

Besides easing the process of setting up an investment, a series of tax incentives, sometimes up to 100 percent exemption of corporation tax, withholding tax and tax on dividends were put in place for new investments meeting given requirements. Though there was a trade off with revenue collection, a lot of new or additional investment was attracted between 1991 and 1997. Industrial parks have been proposed and one has already been opened up with factories under construction as of now. The mining legislation was also revised and a new mining act passed which made it easy for foreign investment in this sector. As a result, the sector grew by 33.6 percent in real terms during 1995/96 and 29.1 percent in 1996/97 financial years. Most of this growth is due to foreign direct investment by companies from United Kingdom, USA, France and South Africa which have invested mainly in gold mining, gypsum, wolfram, limestone, cobalt and tin ore. The picture can be well shown by this simple statistic:

Table 5.9 Mining/Exploration licenses issued to foreign investors 1995-1997

Financial year	*Number*
1995/96	85
1996/97	250

Source: *Background to the budget 1998/99*, Ministry of Finance.

Out of all these licenses, 120 are already operational. As a result of this surge in investment in the sector, income from the mining sector is estimated to have grown on average by 48.2 percent between 1996 and 1997.

Overall, from 1991 to July 1998, Uganda Investment Authority has licensed 2326 projects worth US $ 4.9 billion of which, 1053 are already on the ground. By distribution, manufacturing accounts for 26.9 percent and agriculture, forestry and fishing 25.15 percent of the licensed projects. According to the Ministry of Finance and Economic Planning, in 1997 alone, Uganda Investment Authority licensed 296 projects with planned investment of US $ 1.566 billion and planned employment of 18,765 people. Of these investments, foreign investment accounted for 53.3 percent (US $834m) and joint ventures between local investors and foreign investors 32.3 percent (US $ 507). FDI during the same year grew by 15.8 percent, 69 percent of which was in the manufacturing sector. This reflects increased confidence in the country's economy by foreign investors. No wonder that in 1997, Uganda registered one of the biggest improvements in the world in risk rating index (RRI) compiled by the Institutional Investor Journal and Uganda Investment Authority was voted the second best investment promotion agency in Africa.

In the energy sector, two foreign firms AES from the USA and Norpak from Norway are in advanced stages of securing licenses to invest in hydroelectric power generation along river Nile. In the telecommunications area, South Africa's mobile Telephone Network has already had direct investment in the provision of mobile telephone services.

A new channel to facilitate FDI in the country has emerged with the launching of the Kampala Stock Exchange (KSE) late in 1998. If it succeeds in taking off, some of the state enterprises not yet divested are to be sold off through the stock exchange market. The main focus now with regard to FDI is attracting projects that promote technology transfer.

A.4 External Debt and Aid

Uganda's external debt was US $ 3.2 billion in 1996, but had grown to US $ 3.66 billion as of June 1998. Multilateral creditor institutions account for 76 percent of the total debt stock, the Paris Club (OECD) bilateral creditors 9 percent, bilateral non-OECD 12 percent and 3 percent by other categories of creditors. This is a very heavy debt burden to a poor country with a small economy and very little foreign exchange earnings. For example, during 1997/98 financial year, external debt repayments amounted to US $ 163.5 million, which was approximately 26.74 percent of the total foreign exchange earnings from exports of goods and services for the same period. So, debt servicing is very strenuous on a budget facing a persistent deficit. Table 5 shows Uganda's outstanding public external debt by creditor for 1993 to 1997.

Though the heavily indebted poor countries initiative (HIPC) is to provide some debt relief of about US $ 650 million over the next thirty years, it only gives a little temporary breathing space for the economy. Nevertheless, rescheduling by the Paris Club has also helped in easing the immediate repayment burden. In 1987, US $ 70 million and 1989 US $ 100 million was rescheduled on the favourable Toronto terms.

A.5 Debt Management

With the help of IMF, government has pursued a debt strategy reducing arrears to US $ 247 million. This has been mainly achieved by carrying out massive restructuring of government ministries and departments so as to tremendously cut government expenditure. Under the Naples's terms by the Paris Club, Uganda also benefited with a write off of US $ 71 million.

A.6 Aid

Official development assistance OECD (25% grant) for some years is as follows:

- 1986 US $ 208 million
- 1989 US $ 500 million
- 1995 US $ 830 million
- 1996 US $ 678 million

Source:Economist Intelligence Unit country profile-Uganda 1998/99.

The major bilateral donors (for grants not loans) include Denmark, UK, Japan, Germany and the US. The main multilateral creditors are World Bank, IDA and The European Union.

B. Domestic Environment

B.1 GDP Growth Rate

Uganda's economy as measured by GDP has grown on average at rates well over 5 percent per annum for the last five years or so. The monetary sector grew at 6.9 percent in 1996/97 and at 6.6 percent in 1997/98. The non-monetary sector also grew though at slightly lower rates for instance 2 percent during 1997/98. Tables 5 and 6 show the various aspects of Uganda's GDP and its growth for selected years. It can be seen that there are a lot of fluctuations in the growth rates, which apparently reflect the dominance of agriculture as a percentage of GDP. This share was 44 percent in 1996/97 and 42.4 percent in 1997/98 financial years. Since agriculture is prone to vagaries of nature, the overall GDP growth is bound to reflect effects of such aspects like bad weather. Another point worth noting is that even within the agriculture sector itself, the food crop sector plays a critical role as can clearly be seen from table 5. However, the food crop sub-sector is also taking on an increasing role in the monetary agricultural output taking up 48.4 percent and 48.8 percent of monetary agricultural output for 1996/97 and 1997/98 respectively. Figure 4 shows total GDP growth as compared to with the food sector growth for the period 1988 to 1998.

Table 5.10 Outstanding Uganda Public External Debt by Creditor: 1993-1997

(US $ millions)- 30/6)

Creditor Category Amount outstanding (at June), Outstanding: % of total

	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
Multilateral Creditors										
African Dev. Bank (AFDB)	47.9	28.1	26.3	32.7	32.7	1.8	0.9	0.8	1	0.9
African Dev Fund (ADF)	136.4	196.7	201.8	235.8	253.2	5.2	6.6	6	6.7	7
Arab Bank for Econ. Dev in Af.	18.2	15.4	14.8	15.6	6.2	0.7	0.5	0.4	0.4	0.2
East African Dev. Bank-EADB	0	3.7	0	0	0	0	0.1	0	0	0
European Dev. Fund (EDF)	8.4	7.6	8.6	7.9	6.9	0.3	0.3	0.3	0.2	0.2
European Investment Bank	16.2	20.7	25.7	32.7	36.8	0.6	0.7	0.8	0.9	1
Intern. Bank for Reco. & Dev.	22.2	17.7	0	0	0	0.8	0.6	0	0	0
Internatinal Dev. Ass. (IDA)	1152	1418.5	1714.5	1817	1915.5	43.7	47.3	50.7	51.6	53.1
Intern. Fund For Agr.Dev-IFAD	38	44.4	51.9	55.5	55.1	1.4	1.5	1.5	1.6	1.5
Intern. Monetary Fund IMF	343.5	367.2	407	418.1	411.1	13	12.2	12	11.9	11.4
Islamic Dev. Bank IDB	16.1	15.7	15	13.2	11.2	0.6	0.5	0.4	0.4	0.3
OPEC	11.5	9.8	9	11.1	9.9	0.4	0.3	0.3	0.3	0.3
Other	5.5	10.6	13.5	14.7	14.7	0.2	0.4	0.4	0.4	0.4
Total Multilateral	**1815.9**	**2156.1**	**2488.1**	**2654.3**	**2753.3**	**68.9**	**71.9**	**73.6**	**75.4**	**76.3**
OECD(Paris Club) Creditors										
Austria	14.9	30	44.1	49.3	44.1	0.6	1	1.3	1.4	1.2
France	58.9	37.7	41.3	32	28.3	2.2	1.3	1.2	0.9	0.8
Germany	6.4	2.9	1.3	1.2	1	0.2	0.1	0	0	0
Italy*	125.3	129.6	130.9	125.1	120.5	4.8	4.3	3.9	3.6	3.3
Japan	5.7	36.6	74.1	57.3	54.8	0.2	1.2	2.2	1.6	1.5
Spain	11.1	39.4	37.1	48.8	48.5	0.4	1.3	1.1	1.4	1.3
United Kingdom	39.3	38.9	37	22.4	23	1.5	1.3	1.1	0.6	0.6
USA	8.2	4.8	2.4	1.2	1.1	0.3	0.2	0.1	0	0
Finland				1.3	5.8				0	0.2
Israel	12	12.1	12	12	12	0.5	0.4	0.4	0.3	0.3
Total OECD Bilateral	**281.7**	**332**	**380.2**	**350.6**	**339.1**	**10.7**	**11.1**	**11.3**	**9.8**	**9.2**
Non OECD Bilateral Creditors	415.6	398.3	407.7	402.1	415.1	15.8	13.4	12	11.5	11.6
Total Bilateral Creditors	**697.3**	**730.3**	**787.9**	**752.7**	**754.2**	**26.4**	**24.5**	**23.3**	**21.3**	**20.8**
Others	123.9	112.9	111.1	105.6	99	4.7	3.7	3.2	3.9	2.7
Grand Total ~	**2637.2**	**2999.3**	**3387.1**	**3512.6**	**3606.5**	**100**	**100**	**100**	**100**	**100**

* Figures for Italy for 1995&96 do not reflect the impact of Naples rescheduling while they do for France.

~ Small discrepancies between totals and individual components are due to rounding off.

Source: Ministry of Finance and Economic Planning.

The cash crop sub-sector dominated by coffee declined by 2.8 percent during 1997/98 largely due to price effects and adverse weather caused by El Nino, thus resulting in low growth.

Manufacturing

The manufacturing sector has steadily increased in its share of GDP from 5.8 percent in 1986 to 9.0 percent in 1997 and to 9.1 percent by July 1998. The sector grew by 13.5 percent during 1995, 19.7 percent in 1996 and 13 percent in 1997/98 financial years. It is also worth mentioning that the sector suffered heavily from the El Nino weather phenomenon which made delivery of raw materials and transportation of finished products difficult due to the serious damage it made to the road infrastructure. Many agro-based manufacturing industries took a direct hit as a result of decreased output caused by the adverse weather.

Table 5.11 GDP at Factor Cost (constant 1991prices) for the Period 1991/92 to 1996/97 U.Shs Billion and Growth Rates in Percentage by Sector and Total

Sector/Period	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Agriculture	***1,061,592***	***1,160,190***	***1,180,725***	***1,250,419***	***1,302,384***	***1,322,054***	***1,344,357***
	*-1	9.3	1.8	5.9	4.2	1.3	1.7
Out of which f/crops	*705,707*	*792,566*	*799,345*	*860,880*	*879,122*	*854,597*	*634,407*
	-3.2	12.3	0.9	7.7	2.1	-2	1.6
Mining & Quarrying	6,782	7,488	7,763	8,471	11,418	17,151	20,774
	10.4	10.4	3.7	9.1	34.8	50.2	21.1
Manufacturing	130,676	139,787	160,896	188,779	225,977	258,032	289,852
	15.7	7	15.1	17.3	19.7	14.25	13
Electricity & Water	19,383	20,478	21,967	24,455	27,036	29,649	31,797
	10	5.6	7.3	11.3	10.6	9.7	7
Construction	122,169	134,506	149,690	185,336	216,359	247,340	272,647
	1.3	10.1	11.3	23.8	16.7	14.3	10.2
Commerce	268,819	287,335	314,218	382,171	424,595	436,575	458,436
	6.6	6.9	9.4	21.6	11.1	2.8	5.3
Transport & Comm.	89,210	95,644	105,797	120,909	134,012	146,970	173,357
	5.6	7.2	10.6	14.3	10.8	9.7	5.3
Community Services	331,832	357,984	380,718	408,207	433,314	460,080	485,542
	9.3	7.9	6.4	7.2	6.2	6.2	5.8
Owner occupied hse	64,362	66,765	69,636	74,441	80,396	86,828	93,774
	2.9	3.7	4.3	6.9	8	8	8
Total GDP	**2,094,816**	**2,270,177**	**2,391,410**	**2,643,240**	**2,857,975**	**2,999,457**	**3,170,536**
GDP growth rate	***3.1***	***8.4***	***5.3***	***10.5***	***8.1***	***5***	***5.5***

Note: * The second row for each sector represents the growth rate in percentage. Source: Ministry of Finance and Economic Planning.

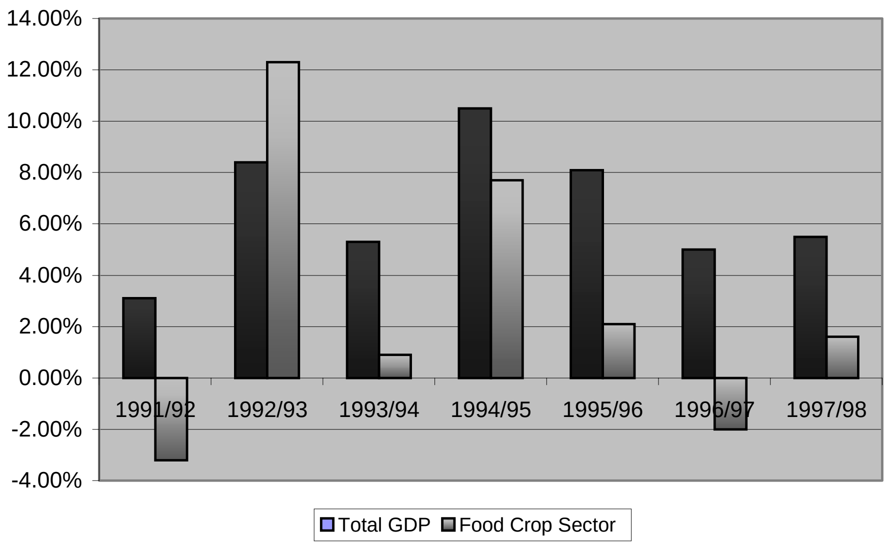
As much as the construction sector is said to be booming, it should be taken with caution. One needs to analyze the source of funding especially of private housing. Most of it may turn out to be superficial in that a lot of it is from embezzled government or project funds. This may in the long run manifest itself in failed government plans and development projects thus affecting prospects for further growth.

Table 5.12 GDP at Constant (1991) Prices - Percentage Distribution: Fiscal Years 1987/88, 1997/98

Industry Group/year	1988/ 89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Monetary										
Agriculture	24	24.3	24.4	24.3	24.6	24.4	23.6	23.7	23.5	22.8
Mining & Quarrying	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.6	0.7
Manufacturing	5.4	5.4	5.6	6.2	6.2	6.7	7.1	7.9	8.5	9.1
Electricity & Water	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.1	0.1
Construction	5.1	5.1	5.2	5.1	5.2	5.5	6.3	6.9	7.6	8
Wholesale & Trade	10.9	11	11.2	11.5	11.2	11.5	12.7	13	12.7	12.7
Hotels & Restaurants	1.1	1.1	1.2	1.3	1.4	1.6	1.7	1.8	1.8	1.8
Transport & Comm.	4	4.1	4.2	4.3	4.2	4.4	4.6	4.7	5.1	5.5
Community Services	14.2	14.4	14.9	15.8	15.8	15.9	15.4	15.1	15.3	15.3
Total Monetary	**65.8**	**66.5**	**67.8**	**69.8**	**69.8**	**71.4**	**72.8**	**74.6**	**76**	**76.8**
Non-Monetary										
Agriculture	30.2	29.6	28.3	26.4	26.5	24.9	23.7	22	20.5	19.6
Construction	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6
Owner occupied houses	3.2	3.1	3.1	3.1	2.9	2.9	2.8	2.8	2.9	3
Total Non-Monetary	**34.2**	**32.2**	**32.2**	**30.2**	**30.2**	**28.6**	**27.2**	**25.4**	**24**	**23.2**
Total GDP	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***

Source: Ministry of Finance, Uganda.

Figure 5.4 Annual GDP Growth Rates Total Compared to Food Crop Sector 1991-98



Source: Ministry of Finance, Uganda.

Table 5.13 GDP by Expenditure for 1993/94-1996/97 (billion U.Shs)

Expenditure head/year	1993/94	1994/95	1995/96	1996/97
Total consumption	**4,185,062**	**4,992,531**	**5,766,685**	**6,253,148**
Public	453,929	526,974	632,176	690,247
Private	3,731,133	4,465,557	5,134,509	5,562,901
Total investment	**641,312**	**827,136**	**986,181**	**1,089,574**
Public	238,559	288,964	358,404	366,305
Private	402,753	538,172	627,777	723,268
Net change in stock	2,091	40,749	-37,604	-26,348
Exports of goods (CIF)	311,655	555,824	635,015	651,138
Imports of goods (CIF)	-840,400	-943,842	-1,137,968	-1,057,435
Net Service income	-100,736	-97,155	-113,151	-109,398
Statistical descripancy	30,693	-15,579	94,631	135,022
GDP at factor cost (U.Sh Mill.)	**4,072,533**	**4,914,606**	**5,637,086**	**6,306,653**
Add indirect taxes	330,831	445,059	55,701	629,047
GDP at market prices	**4,403,364**	**5,359,665**	**6,193,787**	**6,935,700**
Memo items:*				
Total consumption/GDP ratio^	102.8	101.6	102.3	99.2
Public	11.1	10.7	11.2	10.9
Private	91.6	90.9	91.1	88.2
Total investment/GDP ratio	15.7	16.8	17.5	17.3
Public	5.9	5.9	6.4	5.8
Private	9.9	11	11.1	11.5
National savings/GDP ratio	16.1	18.9	20.8	22.15
(excluding transfers)	2.8	8.9	8.6	10.8

Note: * The figures are in percent, ^ GDP at factor cost
Source: Statistics Department, Ministry of Finance.

Inflation

Unlike in the past, current inflation in Uganda is not a result of fiscal deficit financing. It can be explained by either depreciation of the exchange rates, increase in world prices of tradables or changes in demand and supply conditions for non-tradables. A large part of Uganda's CPI is made up of non-tradables. In reality, changes in the supply conditions of food items is a major cause of inflation at the moment. But cost of petroleum products, which depend on world prices, local taxes, exchange rates and transportation costs, is the most important factor influencing inflation in the country. It should be noted however, that, since 1989, the government has managed to keep inflation reasonably under control. Under the Economic Recovery Program, which is still running, government targets among other things curbing monetary expansion and improving expenditure controls. By 1985/86, annual inflation in Uganda averaged over 2000 percent. During this period, supply and demand factors were mainly responsible. Since 1989 to date, annual inflation has fluctuated between 6 and 30 percent with an average of about 10.5 percent. For example, during the financial year 1997/98 alone, annual inflation was 10.4 percent in June 1997 and at 6 percent by October of the same year. These fluctuations reflect the effects on the economy of dependence on agriculture which itself depends on the natural trends in the weather conditions. In fact, when the food sub-sector is looked at independently, it has a higher average inflation than the rest of the sectors. During December 1997, inflation in the sub-sector averaged 37.9 percent and around 25.5 percent earlier in October. By March 1998, it was declining again. This trend corresponded with the El Nino weather pattern of that time when by the end of 1997, the weather had adversely affected food production and the road infrastructure.

Consumption

During financial year 1996/97, Uganda's total consumption as a ratio to GDP was estimated to have declined to 99.2 percent. The decline was largely contributed to by reduced private sector consumption from 91.1 percent of GDP to 88.2 percent. The share of public consumption has tended to remain close to domestic revenue. Table 7 above shows GDP by expenditure for some selected years.

Investment, Savings and Capital Stock

It was mentioned earlier that Foreign Direct Investment in the country is on the increase. It important to note that with the creation of the Uganda Investment Authority, the domestic investment climate has been improved and there has been a lot of private investment in the construction sector.

On the side of savings, during 1996/97, gross national savings increased from 20.8 percent to 22.1 percent of GDP as can be seen from the table above. This was especially due to increased private and official transfers from abroad. Uganda's gross domestic savings as a percentage of GDP was estimated at 20.9 percent in 1995/96, that is twice the 1991/92 level. Excluding grants from abroad, domestic savings as a ratio of GDP has risen sharply from 2.3 percent in 1991/92 to an estimated 16.1 percent in 1995/96. However, it still falls short of domestic investment and below the average for Sub Saharan Africa. Investment as a percentage of GDP was estimated at 18.3 percent in 1995/96 as compared to 17.9 percent during 1994/95. Private sector investment has continued to be strong estimated at 12.3 percent of GDP while public investment increased from 5.9 percent of GDP in 1994/95 to 6.9 percent in 1995/96. Private investment is largely financed by private transfers from abroad. However, excluding transfers, savings increased to 10.8 percent in 1996/97 from 2.8 percent of GDP in 1993/94. During 1996/97, investment share of GDP fell from 17.9 percent to 17.3 percent mainly due to a fall in government investment from 6.4 percent of GDP in 1995/96 to 5.8 percent in 1996/97, offsetting the slight improvement in private sector investments share from 11.1 percent of GDP in 1995/96 to 11.5 percent. Most of the growth in investment was in construction.

Money Supply and Interest Rates

The Bank of Uganda, which is the central bank, is the institution responsible for the issue and control of money supply and conduct of monetary policies in the country. Though the fiscal position is still weak due to low revenue base, use of expansionary monetary policies to finance budget deficits has stopped. The challenge to the conduct of monetary policy in Uganda is the critical need for satisfying both the budget constraint and the external sector given the country's success in attracting capital inflows. Up to 1997/98, monetary policy operations continued to be geared towards control of the growth in money supply with a view to controlling inflation and bringing about greater confidence in the economy. Open market operations by the Bank of Uganda using Treasury bill auctioning has been central to the conduct of monetary policy. Competitive demand for government securities has continued to outstrip the offers with the interest rate on the 91 days treasury bill stabilizing within a range of 9 to 10 percent and long-term bills within 12 to 13 percent during 1997/98. The average yield on government bonds as measured by the yield on treasury bills was about 2.2 percent. Though positive, it is still less than the real lending rates.

However, many banks continue to be faced with the problem of non-performing assets, while credit risks continue to rise forcing many to offer high time deposit rates. This has tended to keep lending interest rates quite high. Lending rates between July 1997 and March 1998 varied between 20.5 and 21.4 percent. The interest rates on savings deposits over the same period varied between 3.3 and 4.3 percent. With annual inflation corresponding to the period varying between –0.1 and 11.8 percent, it implies that real lending and savings interest rates respectively ranged between 9.6-16.4 percent and (8.5)-0.2 percent. This gives an average of 13.2 and (4.3) percent for real lending and real saving rates respectively. Such levels do not encourage both domestic saving and borrowing. This puts the small local banks with no offshore capital at higher risk. In fact, two local banks had to close down in the last one year and several have had liquidity problems. The interest rates were liberalized in order to foster private sector savings through positive interest rates. Unfortunately, this has not been the case in the financial sector.

On monetary policy, during 1997/98, conduct of monetary policy was rather complicated especially at the beginning of 1998. Base money remained below desired levels calling for easing of the monetary stance. Commercial banks had excess liquidity and so the required reserve ratio had to be kept at 9 and 8 percent for the demand and time deposits. It could not be revised due to the slow down in extension of credit by commercial banks. Table 8 shows the monetary position for the period June 1994 to June 1998. As can be seen from the table, the position of net foreign assets has continued to improve. The gross foreign reserves of the Bank of Uganda have been growing. The lower growth in net foreign assets (NFA) in 1997/98 was due to a decrease in the rate of inflow of foreign exchange which led to depreciation of the Uganda shilling. As compared to the previous three years, domestic credit in 1997/98 declined by 8.8 percent. This was among other reasons due to increased use of foreign resources to finance production and the restructuring of the financial sector especially the dominant commercial bank-The Uganda Commercial Bank.

Table 5.15 Monetary Survey June 1994 to June 1998 (U.shs Billions) and Projections for June 1999

Period	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99
Net foreign assets	-76.2	60.2	175.7	377	597.5	696.9
Domestic credit	200.5	150.8	257.9	274.2	250.2	287.7
Government	-12.5	-108.1	-77.7	-77.5	-137.7	-178.7
Private	213	258.9	335.6	351.7	387.9	466.5
Other items net	324.4	360.5	250.4	158	112.6	112.6
Money and quasi money (M3)	448.7	571.5	684	809.1	960.3	1,097.20
Money (M2)	402.6	504.4	609	705.6	832.6	957.5
Money (M1)-currency & dem. Deposits	292.5	375.8	431	484.7		
Quasi money (time & savings dep.)	110	128.6	178	220.8		
Other liabilities (foreign exch. Dep.)	46.2	67.1	75	103.5	127.7	139.7

Source: Bank of Uganda.

As shown in the table, broad money (M3) grew more or less by the same percentage in 1996/97 and 1997/98 financial years. Base money (currency in circulation plus commercial bank deposits) increased less slightly in 1997/98 in comparison with 1996/97. This growth was below the desired levels. The growth in base money was mainly due to growth in commercial bank deposits. For the last three years 1997-99, the largest contributor has been increase in net foreign assets. The change in the other items helped to contain the rate of money growth. For example, 1997/98 growth in net foreign assets contributed 27.3 percent to money supply while private sector had only a 4.5 percent growth. Government’s total domestic credit remaining negative for the same period also contributed to the control of money supply growth.

Money Supply and Financial Savings

Table 5.16 Financial savings to money supply and GDP: 1994/95-1997/98(%)

End period	1994/95	1995/96	1996/97	1997/98
Financial savings/M2	25.5	29.2	31.3	32.7
Financial savings/GDP	2.6	3.1	3.7	3.2

Source: Bank of Uganda.

Financial savings in Uganda have not increased substantially over a couple of years. The potential for increasing financial savings (especially in the private sector) depends on the level of inflation, interest rates and the level of risk. In the 1997/98 financial savings did not increase much, as inflation was very volatile (within a range of 6-10 percent). Savings deposits rates remained at very low levels hence unattractive. This has limited financial deepening.

Employment

Establishing a clear state of employment in Uganda is very difficult. The last comprehensive labour survey was carried out in 1967 and therefore obsolete for today's conditions. Another attempt in 1977 could not be completed due to the volatile political situation at that time. Even currently, successive government budgets have mentioned employment in general terms without giving specific statistics. What can be said however, is that most people in the country are employed in agriculture. Also it should be noted that unemployment is widespread especially of school leavers who shun the agricultural work. There is also a lot of under-employment and disguised unemployment both in agriculture and the other sectors.

C. Fiscal Position

Table 5.13 gives a summary of the provisional outturn of the central government fiscal position for 1997/98 as compared to estimates and 1996/97. In general, Uganda has had a persistent trend of expenditure outstripping domestic revenue sources and grants. As can be seen from the table, this trend holds for the years under consideration. It should be noted that higher expected grants for 1997/98 were a result of increased commitment of donors and the depreciation of the Uganda shilling. For the same year, domestic revenue under performed by Ush. 40.6 billion compared to budgeted estimate of Ush 829 billion and the share of domestic revenue in GDP fell for the first time since the implementation of the economic recovery program (ERP) from 11.7% in 1996/97 to 11.3% in 1997/98. As a proportion of GDP, total expenditure decreased marginally to 17.4 percent of GDP in 1997/98 compared to 17.7 percent in the preceding year.

Despite increasing pressures on the expenditure side, the outturn represents a Ush 14.7 billion shortfall from the budgeted figure. Expenditure restraint was necessary in order to maintain the budget under control given the revenue shortfall for the financial year.

Table 5.17 Budget Outturn for 1996/97 and Provisional for 1997/98 Fiscal Years

(U.Shs. Billions)

	Outturn	Budget	Projection	Deviation	Performance

					(%)
	1996/97	**1997/98**	**1997/98**		
Revenue and Grants	**1,046.80**	**1,147**	**1,189.50**	**42.5**	**103.7**
Revenue 1/	735.7	829	788.4	-40.6	95.1
Grants	310.1	318	401.1	83.1	126.1
Total expenditure & lending	**1,116.70**	**1,231**	**1,216.30**	**-14.7**	**98.8**
Recurrent expenditure 2/	672.6	731	724.4	-6.6	99.1
Development expenditure	442	497	488.9	-8.1	98.4
out of which: -Domestic	102.3	88.8	80	-8.8	90.1
-External	339.7	408.2	408.9	0.7	100.2
Net lending	2	3	3	0	100
Overall deficit (commitment)	-69.8	-8.4	-26.8	57.2	31.9
Excluding grants	-380.5	-402	-427.9	-25.9	106.4
Change in arrears 3/	-41.9	-39.6	-74.1	-34.5	187
Adjustment to cash 4/	1.4	-12	-23	-11	191.7
Overall deficit(cash)	-110.3	-135.6	-123.9	11.7	91.4
Financing	110.3	135.6	123.9	-11.7	91.4
Foreign	173.7	237.4	211.4	-26	89
Domestic	-48.2	-82.1	-84.6	-2.5	103
Banking system	-73.4	-56	-64.2	-8.2	114.6
Of which:- Central bank	-93.1	-56	-116.2	-60.2	207.5
- Commercial banks	19.7		52	52	n.a
Non-bank	25.2	-26.1	-20.4	5.7	78.2
Residual	-15.2	-19.7	-2.9		
Memo 1: GDP at factor cost	6,307	7,160	6,964		
Memo 2: as % of GDP					
Revenue	11.7	11.6	11.3		
Expenditure	17.7	17.1	17.4		
Deficit (cmmitment)	-1.1	-1.1	-0.4		
Deficit (excluding grants)	-6	-5.5	-6.1		
Deficit (cash basis)	-1.8	-1.8	-1.8		

Notes: Expenditure figures represent commitments, i.e promissory notes are included in the year of issue not at redemption.
1/ tax and non tax revenue excluding taxes on government purchases;
2/ excludes appropriation in aid spent by line ministries;
3/ both foreign and domestic
4/ cheque float

Source: Ministry of Finance, Uganda.

By the end of June 1998, central government expenditure had increased by 9.2 percent to Ush 1,219.2 billion as compared to Ush 1,116.7 billion in 1996/97. Of this, only Ush 810.3 billion was domestically funded. The expenditure ought to have been higher but there were expenditure cuts during the financial year to accommodate revenue shortfalls and reflect government's commitment to constrain expenditure to the resource envelope so as to maintain macro economic stability. Table 12 shows the central government expenditure by category for financial years 1996/97 to 1997/98.

Table 5.18 Provisional Central Government Expenditure Performance

(Ushs billion)

Category	**Outturn**	**Budget**	**Projected**	**Deviation**	**Performance**

	1996/97	1997/98	1997/98		ratio (%)
Wage bill	227.00	252.30	255.40	3.1	101.20
Non wage recurrent 1/	341.7	315.1	299.9	-15.2	95.20
out of which PPAs 2/	96.4	110.4	107.6	-2.8	97.50
Defense 3/	90.20	69.00	75.50	6.6	109.40
Other	155	135.7	116.8	-18.9	86.10
Statutory 4/	22.4	61.9	66.5	4.6	107.40
URA	26.4	25.5	25.4	-0.1	99.60
Interests	67.2	76.2	77.2	1	101.30
Development	102.3	88.8	80	-5.9	93
Net lending	2	3	3	0	100.00
TOTAL	**789**	**822.8**	**807.4**	**-15.4**	**98.10**

Note:
1/ excludes appropriation in aid spent by line ministries
2/ excludes grants to decentralised districts
3/ excludes statutory
4/ excludes arrears for demobilisation of soldiers and court awards
Source: Ministry of Finance, Uganda.

As mentioned earlier, only Ush. 810.2 billion of the central government expenditure was domestically funded. Externally mobilised resources had to cater for the balance mainly through donor support.

Table 5.19 External Resource Mobilisation

(U.Shs billion)

Donor support	Outturn 1996/97	Budget 1997/98	Projected 1997/98	Deficit/ surplus	Performance percent
Total external resoures	592.4	640.3	681.3	34.8	106.4
Import support	176.50	197.5	212.50	9.33	107.6
Grants	126.7	134	141.3	7.29	105.4
Loans	49.8	63.5	71.2	2.04	112.1
Project aid 1/	415.90	443	468.80	25.5	105.7
Grants	225.2	221.7	234.4	12.7	105.7
Loans	190.7	221.6	234.4	12.7	105.7

Notes: These figures are not the same as those of the previous two tables as part of the external resources do not go through the central government.
1/ Until 1997/98, 455 of project aid were allocated to loans and the rest to grants. Now each element is given a 50% weight.

Source: Background to the budget 1998/99, Ministry of Finance, Uganda and Bank of Uganda.

Table 5.15 above gives the state of external resource mobilisation for financial years 1996/97 and 1997/98. During 1997/98, total external budget and balance of payments support increased by 15 percent as compared to the previous year's level. A closer look at the table shows that for the financial years in question, external support played a big role in total government expenditure. During 1997/98, out of the total government expenditure of Ush. 1219.2 billion, external support accounted for 55.9 percent that is Ush. 681.3 billion. The corresponding percentages for the previous two years were 53.1 percent and 49.1 percent for 1995/96 and 1996/97 respectively. The high increase in the reliance on external resources was due to revenue shortfall and depreciation of the Uganda shilling. Project aid accounted for 83.1 percent of development expenditure in 1997/98 compared to 76.9 percent in the previous financial year. Table 14 gives the provisional recurrent revenue performance for 1997/98 and outturn for 1996/97.

Table 5.20 Provisional Recurrent Revenue Performance for 1997/98 and 96/97 Outturn (U.Sh bn)

Head of revenue	Outturn 1996/97	Budget 1997/98	Outturn 1997/98*	Deviation	Performance percent
Total recurrent revenue	**735.7**	**829**	**788.4**	**-40.6**	**95.1**
Tax revenue	***695.6***	***784.3***	***744.4***	***-39.9***	***94.9***
Income tax	102.3	114.3	121	6.7	105.9
Goods and services	174.1	209.3	191.7	-17.6	91.6
excise duty	86.3	97.5	98.9	1.4	101.4
VAT(net of refunds	80.3	111.8	92.8	-19	83
International trade	401.5	460.7	431.7	-29	93.7
Export taxes	2.5	0.5	0.4	-0.1	80
Customs duty	269.7	298	267.1	-30.9	89.6
out of which petrol	197.5	216.5	189	-27.5	87.3
VAT on imports	129.3	143	146.9	3.9	102.7
Import excise tax	17.8	19.2	17.3	-1.9	90.1
Non-tax revenue**	40.1	44.7	44	-0.7	98.4
Memo 1: government taxes^	7	30	8.8	-21.2	29.3
Memo 2: as % of total revenue					
Income tax	13.8	13.3	15.2		
Goods and services	23.4	24.4	24		
International trade	54.1	53.6	54.2		
Non-tax revenue	5.4	5.2	5.5		

Notes: * provisional figures for 1997/98 only
** Fees and licences, national lottery and casinos
^ Taxes on government procurement have been excluded from the total revenue figures to clarify the size of the revenue envelope.
Source: Uganda Revenue Authority and Ministry of Finance and Economic Planning.

The provisional figures for 1997/98 show that the outturn for the period was less than the budget estimates. This was mainly due to the poor than expected performance of VAT, continued oil smuggling due to high taxes and the adverse weather of the last quarter of 1997, which affected economic activities. As can be seen from the table, more than half of the tax revenue is accounted for by taxes on international trade with income tax only taking up 15.2 percent in 1997/98. This is basically because of very low incomes among the population, the income tax base is very small. Also the subsistence and informal sectors are quite big and incomes from these sectors remain largely untaxed.

5.4 Uganda's Tax System

Two categories of tax system operate side by side in Uganda. The Central government tax and the Local government tax systems. The local taxes are administered wholly by the local authorities with no link to the central government taxes with the exception of the graduated tax (some form of poll tax) for which a credit is given in adjusting for tax payers income tax at the year end.

5.4.1 Central Government Taxes

The authority of administering and collecting of all the national government taxes is vested in the Uganda Revenue Authority (URA). This is a semi autonomous body formed by act of parliament under the ministry of Finance Planning and Economic Development. The URA was formed in 1991 to try and create efficiency in tax administration by removing the bureaucratic bottlenecks usually associated with the civil service under which tax administration used to be. The URA is composed of four tax collecting departments and three support departments namely:

- Internal Revenue Department –for income tax and corporation tax for small and medium tax payers, rental income tax, stamp duty and motor vehicle licenses and fees.
- Large taxpayers Department-for income tax, corporation tax and VAT for large taxpayers.
- Value Added Tax Department- for VAT of small and medium taxpayers.
- Customs and Excise Department
- Finance and Administration Department for general administration and finances.
- Chief Internal Auditors Office
- The Commissioner Generals Office and the Board Secretariat.

a. Types of Taxes

The whole tax system can be broadly divided into two types of taxes:

-Direct taxes: administered under the Internal Revenue Department and Large Taxpayers Departments.

These include:

a) Income tax and Pay As You Earn (employment income tax)
b) Corporation tax
c) Rental income tax-on rented property.
   These are all imposed under the Income Tax Act 1997.
d) Motor vehicle licenses and fees imposed under the Traffic and Road Safety Act 1970.
e) Stamp Duty under the Stamp Duty Act.

-Indirect Taxes: Include-

a) Consumption tax- The consumption tax in operation in Uganda is The Value added tax – Imposed under the VAT statute 1996. Administered by Value Added Department and Large Tax Payers Department.
b) Taxes on International trade and locally manufactured goods Include import duty, export tax and excise tax. Excise tax is imposed on some luxurious imports and some local manufactured goods. Export tax is not very common. It is at times applied to coffee exports. These are all imposed under the Customs Management Act.

b. Tax Assessment and Collection Methods *b.1 Self Assessment*

Though a form of self-assessment had been informally in operation for some few trusted taxpayers, the system was only enshrined into the income tax law during the 1997 tax reform under the Income Tax Act 1997. However, this system does not apply universally to all taxpayers. It only applies to those taxpayers specified in a notice published by the Commissioner in the Gazette as those to whom the system applies. This is quite a reasonable restriction given the low level of tax awareness and compliance among the Ugandan taxpayers. To be specific, it mainly applies to taxpayers who have shown reliability and dependability for a long time in handling their tax affairs with the tax authorities.

Under the self assessment system, a taxpayer who has furnished a return of income for the year of income, is deemed to have been assessed by the Commissioner and the assessable income and therefore tax payable thereof being what the taxpayer has stated on the return. The taxpayers return is treated as a notice of assessment served to him/her by the Commissioner. However, the Act also provides that the Commissioner may raise an assessment in any case he considers necessary on a taxpayer who has furnished a return under self-assessment. Along with such assessment the Commissioner shall give reasons for which he has deemed it necessary to make such an assessment.

b.2 Official Assessment

Under the Income Tax Act, every taxpayer (except non-residents, employment income only cases and presumptive assessment cases of traders with annual gross turnover not exceeding Ush 50 million) has to furnish a return of income in a form prescribed by the Commissioner. Together with the signed return, the taxpayer has to file statements of income and expenditure and of assets and liabilities. The returns must be filed not later than four months after the end of the year under consideration. The Commissioner may however grant an extension not exceeding 90 days. The URA officials examine the return of income and the financial statements filed by the taxpayer. Based on the results of the examination and other available information, an assessment of the chargeable income of the taxpayer is made and the tax payable thereof. Such an assessment may be made within seven years from the date the return was furnished. In cases of fraud, it may be made anytime.

Estimated assessments

In case of a taxpayer not furnishing a return or where the Commissioner is not satisfied with the return filed, the Commissioner may to the best of his judgement make an estimated assessment of the chargeable income of the taxpayer and the tax payable thereof for that year, including a statement of reasons for dissatisfaction with the return where applicable. In all cases, the notice of assessment from the Commissioner will usually show:

- Amount of chargeable income.
- Amount of tax payable
- Amount of tax paid, if any.
- Time, place and manner of objecting to the assessment.

Additional assessments

Additional assessments may arise in situations where new information is discovered about a taxpayer which indicates that any previous assessment of his tax was an under assessment. It could be that some income is found not to have been declared. These additional assessments may made within three years from the date of the first assessment. But in case of fraud, they can be made anytime.

Presumptive Assessments

This method of assessment was introduced by the new Income Tax Act of 1997. It is applied to taxpayers operating businesses with annual turnover of less than 50 million Uganda shillings. Such taxpayers are not required to furnish returns of income to the Commissioner, unless the taxpayer elects by notice in writing to the Commissioner to be allowed to file returns. Though this system is supposed to work in such a way that the taxpayer declares his turnover, in reality, it mainly involves tax officials taking a presumptive assessment of one’s turnover and then using the laid down tax rates to determine how much the taxpayer should pay. For example, a taxpayer whose turnover (or is estimated to be) say between U.sh 30 million and U.sh 40 million, pays U.sh 350,000 or 1% of gross turnover whichever is the lower in taxes.

c. Collection and Recovery Methods

All tax collections are directly paid into the bank by taxpayers themselves. No officer of Uganda Revenue Authority is allowed to handle any cash or cheque from the taxpayer (except in special circumstances and even then with authorisation from the Commissioner for example like in cases of collection from remote places where there are no banking facilities). The taxpayer goes to the nearest tax office, usually one where his tax file is maintained if he wants to clear his tax matters. In this office, the taxpayer is given bank payment advice forms which have his details including his tax identification number (TIN), address and also the bank branch where the tax has to be paid. After paying at the bank, the taxpayer is issued with a bank pay-in slip which in turn he presents again at the tax office so as to be given a tax receipt. The process is done in one day if the tax is paid in the morning, but if payment is done in the afternoon, the process is completed the following morning. The receipt is made such that the taxpayer receives the original and copies are retained by the tax office and on the taxpayer's file.

Withholding Tax System

This is a method used to collect taxes from various sources. It is a very convenient method of collection as it reduces the number of people the tax authorities have to deal with directly. All employment income is collected through the withholding method. All employers are by law required to keep proper records of their employees and all the forms of remuneration given to each. The employer must withhold tax from the employees according to the monthly/annual rates as provided by URA. The tax withheld must be paid to the bank within fifteen days after the end of the month in which the payment subject to withholding tax was made. But in cases involving withholding on international payments, the remittance to the bank should be within five days of the performance of the service or before the date the non-resident leaves Uganda. The withholding agent who fails to withhold such tax is personally liable to pay the tax, though he may recover it from the payee. The person from whom tax has been withheld is issued with a tax credit certificate(s), which he has to attach when furnishing the final return of income. The withholding system also is applied to the following cases on gross amounts:

- Interest paid to a resident person except:
    - -that paid by a natural person
    - -interest paid to a financial institution
    - -interest paid to a company by an associated company.
    - -exempt interest

- Payment of dividends to resident shareholders except exempt dividend income
- Payment for goods and services the value of which exceeds Ush 1 million supplied to the government of Uganda, local authority, company controlled by the government of Uganda or any person designated by the government of Uganda or Minister of Finance.
- On imports of goods into the country. Here, withholding tax is based on the customs duty value.
- On international payments (Non-residents) for instance an agent/ promoter paying a non-resident entertainer/sports person.

In case of withholding tax on dividends and interest to resident individuals, it is a final tax in its own right and therefore, no year-end adjustments are made in respect to it.

Provisional tax method

This is a form of advance tax collection. Under the method, every taxpayer who derives any income not subject to withholding tax during the year of income is required to pay provisional tax. Any taxpayer other than an individual is liable to pay provisional tax in two equal instalments before the last day of the 6th and 12th months of the year of income (or his accounting year). The provisional tax is 50 percent of the estimated provisional tax for the year under consideration payable by the taxpayer, less any withholding tax paid prior to the instalment. For an individual taxpayer liable to provisional tax, the tax has to be paid in four equal instalments on or before the last day of the 3rd, 6th, 9th and 12th months of the year of income in respect of the taxpayer's liability for income tax for that year. The provisional tax amount is 25 percent of the estimated provisional tax of the taxpayer for the year less any withholding tax paid before the instalment. In both cases of the individual taxpayer and the other persons, the provisional tax is taken as a credit against the income tax assessed on the taxpayer at the end of the year.

In cases of taxpayers furnishing returns, all the tax due must be paid on the due date for furnishing the return of income to which it relates. In all other cases, the tax should be paid within 45 days from the date of service of the notice of assessment. If the taxpayer has difficulty in paying the tax on time as required, on application to the Commissioner, the taxpayer may be allowed to pay his tax in instalments.

Person Leaving Uganda

Where there is reasonable ground to believe that a person is about to leave Uganda permanently without paying all tax due under the tax acts, the Commissioner may issue a certificate containing particulars of the tax due to the Commissioner of Immigration and require the latter to prevent such person from leaving Uganda until that person makes payment of all tax in full or provides a financial bond guaranteeing payment of the tax due.

Collecting from a person owing (or holding for) money to the taxpayer

Another way of collecting or recovering tax due is in case of a taxpayer with undisputed tax failing to pay on the required date. The Commissioner may by notice in writing require any person owing money or holding money on account of the taxpayer or is holding /may hold money on account of some other person for payment to the taxpayer or having authority from some other person to pay money to the taxpayer, to pay the money to the Commissioner on the date set out in the notice, up to the amount of the tax due.

Collection by Distraint

In extreme cases of default and non-compliance, tax can be collected or recovered by distraint against the taxpayer. The Commissioner may recover any unpaid tax by distress proceedings against movable property of a person liable to pay tax by issuing an order specifying details of the taxpayer, the property and its location and the tax liability. The Commissioner may require a police officer to be present while the distress order is being executed. The taxpayer in this case also bears the costs of distress. If he does not pay both the tax and distress costs within a period of 10 days or with respect to perishable goods in the period the Commissioner considers reasonable, the goods will be sold by public auction. Any balance from the proceeds of the auction after removing tax and all costs of distress shall be given to the liable taxpayer.

Receiverships/Liquidations

In cases of receivership/liquidations, the receiver has to notify the Commissioner of being appointed as receiver. The Commissioner may notify the receiver in writing the amount to be sufficient to provide for any tax to be paid by the person whose assets are in the possession of the receiver. The receiver upon sale of assets has to set aside the amount to cover the tax and remit it to the Uganda Revenue Authority.

d. Offenses and Penalties

There is a wide range of offenses and penalties specified by the tax act to try and cover many aspects often encountered in tax administration. Offenses range from issues like declaring false information to tax officials, not keeping proper records as required, obstructing tax officers on duty, failing to furnish returns and not paying tax on time to offenses by tax officials like taking bribes. In all these cases the penalties may range between paying minimum fines of Ush 300,000, paying interest on unpaid taxes or imprisonment of periods up to a minimum of 3 months depending on the gravity of the offense.

e. Statutory rates, chargeable income and tax bases

For income tax, one is taxed either as a resident or non-resident taxpayer and accordingly the rates are different. The qualification for certain allowable deductions also depend on the residence status. The income chargeable to tax is the gross income for the year, less deductions allowed. Other than the deductions, there are no provisions for relief in the Income tax act. However, a tax-free threshold of Ush 1,560,000 is provided to resident taxpayers in determining their annual tax. But the non-residents are not entitled to this benefit. The tax base for income tax includes:

- ♦ Business income which is defined very widely to include any aspect of trade or related transactions.
- ♦ Employment income which covers all forms of remuneration but taking into any specific allowable expenses as provided by the Acts.
- ♦ Property income which covers both physical property and intangible ones like patents and copyrights.

Income taken into consideration here is all income derived during the year of income except exempt income. For a resident person, the gross income includes all income from all geographical sources but with credits for foreign income tax paid. However, the foreign tax credits should not exceed the Ugandan income tax payable on foreign sourced income. Both business and employment are broadly defined to cover a wide range of associated income sources. Also property income has a wide definition to bring into the tax bracket income from both tangible and intangible property.

In ascertaining a person's chargeable income, a number of deductions are allowed summarised as below:

- All expenditures and losses in the year of income incurred in the production of income included in the gross income. These expenditures and losses should not only be related to business, but incurred in production of the taxable income in question.
- For rental income, 20 percent of the gross rental income.
- Losses regarding disposals of business assets.
- Deductions for bad debts.
- Repairs and minor capital equipment expenses/costs.
- Depreciation on depreciable assets at statutory rates as defined by the Income Tax Act which include the following:
  - *Class 1:* computers and handling equipment at 40 percent
  - *Class 2:* Automobiles, construction and earth moving equipment, goods vehicles not over 7 tonnes at 35 percent.
  - *Class 3:* Buses and large goods vehicles at 30 percent
  - *Class 4:* Railroads, vessels, aircraft, office equipment and others not included in any other Class at 20 percent.
- Initial allowances on putting into use an eligible property for the first time especially plant and machinery used in production excluding motor vehicles, household equipment and furniture and fittings.
- Industrial buildings allowances at prescribed rates.
- Twenty five percent of start up costs
- Training expenses, scientific, research and development expenditure, charitable donations and others.

f. Motor Vehicle Licences and fees, Stamp duty

The tax base in case of motor vehicle licences and fees is usually the engine capacity of the vehicle. Also driving permits depending on the period applied for form another base. Stamp duty base is the value of the property being transacted and ranges between 0.5% and 1% of the value. Other transactions like drafting certain legal documents are taxed at rates of between Ush 1,000 and Ushs 10,000 stamp duty.

g. Statutory Tax Rates

The tax rates may be categorized as whether they are for individual taxpayers or corporate taxpayers; resident or non-resident and other criteria as stipulated in the Income Tax Act. Below are the various rates of tax in operation:

Table 5.21

Income tax rates for resident individuals

Chargeable Income	Rate of Tax
Not exceeding Shs. 1,560,000	Nil
Exceeding Shs. 1,560,000 but not exceeding Shs. 2,820,000 Exceeding Shs. 2,820,000 but not exceeding Shs. 4,920,000 Exceeding Shs. 4,920,000	10 percent of the amount by which chargeable income exceeds Shs. 1,560,000 Shs. 126,000 plus 20% of the amount by which chargeable income exceeds Shs. 2,820,000 Shs. 546,000 plus 305 of the amount by which chargeable income exceeds Shs. 4,920,000

Rates for Non- resident individuals

Chargeable income	Rate of tax
Not exceeding Shs. 2,820,000	10 percent
Exceeding Shs. 2,820,00 but not exceeding Shs. 4,920,000	Shs. 282,000 plus 20% of the amount by which chargeable income exceeds Shs. 2,820,000
Exceeding Shs. 4,920,000	Shs. 702,000 plus 30% of the amount by which chargeable income exceeds Shs. 4,920,000

Source: *Income Tax Act*, 1997, Republic of Uganda.

Table 5.22

Rates for small businesses under presumptive assessment system

Gross turnover	Tax
Not over Shs. 20 million	Shs. 100,000
Over Shs. 20 million but not more than Shs. 30m	Shs. 250,000 or 1% of gross turnover which ever is lower
Over Shs. 30m but not more than Shs. 40m	Shs. 350,000 or 1% of gross turnover which ever is lower
Over Shs. 40 m but not over Shs. 50 million	Shs. 450,000 or 1% of gross turnover which ever is lower

Source: *Income Tax Act*, 1997, Republic of Uganda

Note: Credit is given to such taxpayers for any provisional tax paid or any withholding tax on the amount included in the gross income.

Rates for companies

1) For companies other than mining companies, the tax rate is 30 percent.
2) For mining companies, the rate varies between 25% and 45% depending on the ratio of chargeable income of the mining company for the year of income to the gross revenue of the company for that year.

Other rates:

a) Non- resident persons 15 percent of gross income.
b) Trustees and retirement funds 30 percent.
c) Rental income tax 20 percent of chargeable income in excess of Shs. 1,560,000.
d) Withholding tax on dividends and interest of resident persons 15 percent
e) Withholding tax applicable to imported goods and services 4 percent.
f) Rate applicable to shipping and aircraft income 2 percent

g. Indirect Taxes

VALUE ADDED TAX (VAT)

This is the only consumption tax levied in Uganda. It was introduced in 1996 under the Value Added Tax Statute 1996 to replace two other consumption-based taxes namely: Commercial Transaction Levy (CTL) and Sales Tax. It has so far performed quite well unlike what happened in Ghana on their first attempt at VAT. The variant of VAT in operation in Uganda is the multi-stage input output type, where the tax is levied at various stages in the transaction chain from production/import until the final consumer. It is applied to a wide range of supply of goods and services made by taxable persons in Uganda with some specific exemptions. It is also imposed on all imports of goods and supply of imported services those that are exempt. Unlike in many countries where a multitude of rates for VAT operates at the same time, in Uganda there is only one rate for all taxable goods and services at 17 percent of the selling price or of customs duty value.

Tax computation

As mentioned earlier, the variant of VAT in Uganda is the input output type. Each time a taxable person makes purchases of taxable supplies, he pays VAT on the purchases. This is referred to as input tax. Also each time he makes a sale of taxable supplies, he charges VAT on the sale price paid by the buyer. This is the output tax. In calculating the tax, the taxable person gets the output tax and subtracts from it the input tax. If the output tax is greater than the input tax, he pays the difference to the Uganda Revenue Authority. If the input tax is greater than the output tax, he claims a refund from the URA.

Who can charge VAT?

Not every trader is allowed to charge VAT in his daily transactions. Only registered traders, referred to in the VAT statute as taxable persons are allowed to do so. These are required by law to issue tax invoices each time they make a taxable supply, and to ask for an invoice when they make taxable purchases. Such persons must be registered with the VAT department as taxable persons. All traders with an annual turnover of Ushs. 50 million and above are required by law to register as taxable persons. Also, all persons being national or local government authority or company run by government must register. In other cases, the registration is voluntary upon application to the Commissioner. For ease of administration in all cases, for someone to be registered, he must have a clearly identifiable business address and meet certain other requirements.

Classification of Supplies

For the purposes of levying VAT, goods and services are categorised into two groups namely:

g.1 Taxable supplies :

These are supplies other than exempt supplies made by a taxable person. They are divided into two for the purposes of applying the tax rate:

i) **Standard rated supplies-** These are the supplies, which attracts tax at the standard rate of 17% when a sale or a purchase is made.

ii) **Zero rated supplies-** These do not attract the standard tax rate of 17%. In reality, these are not taxed though they are referred to as taxable supplies. Zero rated supplies include:

- Exports
- Supply of milk even when treated in any way to preserve it.
- Supply of educational materials
- Supply of seeds, fertilisers, pesticides and hoes.
- Supply of maize flour
- Supply of international transportation of passengers or goods or services in connection with this.

The unique feature that differentiates taxable supplies (including zero-rated) from exempt supplies is that the taxable person is entitled to claim a refund of any input tax paid in relation to these supplies for example on transportation services even if no tax was paid on the standard rated supplies.

Exempt supplies:

These are supplies that are specifically exempt from VAT by the statute. Dealers in these supplies are not required to charge VAT on sales and do not pay VAT on purchases of these goods. They are also not entitled to claim for any tax refund for the VAT that may have been paid on associated services, for instance VAT paid on utilities like electricity for business premises where one sells exempt supplies. Exempt supplies include:

- The supply of unprocessed foodstuffs and agricultural livestock.
- The supply of postage stamps.
- Supply of financial services like granting of loans, credit, transactions relating to deposit and current accounts, cheques, shares and stocks and management of investment funds.
- Supply of insurance services.
- Supply of unimproved land.
- Supply by way of lease or letting of immovable property other than-
  -a lease or letting of commercial premises.
  -a lease or letting of hotel or holiday accommodation; or
  -a lease or letting for periods not exceeding two months; or
  - a lease or letting for parking or storing cars or other vehicles.
- Supply of educational services including provision of pre-primary, primary, or secondary education; technical college or university or education services for the physically and mentally handicapped.
- Supply of medical, dental and nursing services.
- Supply of social welfare services like care for the elderly or minors.
- Supply of passenger transportation services.
- Exempt imports. These are exempt if they would be exempt had they been supplied in Uganda or if they are exempt from customs duty. And others as specified by the Statute.

Returns and Assessments

The tax period for VAT is one calendar month. A taxable person has to lodge a tax return with the Commissioner for each tax period within 15 days after the end of the period. On the return, the taxpayer has to state the amount of tax payable for the period, the amount of input credit refund claimed if any and any other matters as may be prescribed on the return form. The period of filing a return may however be extended if there is reasonable cause for the taxable person not to be able to lodge it in on time. In this case, the taxpayer has to apply to the Commissioner for permission to file the return late. In cases where a person fails to lodge a return or the Commissioner is not satisfied with the return lodged in or the Commissioner has reasonable ground to believe that a person will become liable but is unlikely to pay, the Commissioner may make an assessment of the amount of tax payable by that person. The Commissioner may make such estimates basing on the best information available. In such cases, the Commissioner issues a notice of assessment to the taxpayer stating the tax payable, the due date and the explanation of the assessment and the procedure for objection.

Field Audits

Though the taxpayer is expected to file returns and pay the tax due voluntarily as required, in practice the whole system operates differently. Because of the known low levels of compliance, the Uganda Revenue Authority officers have to carry out a lot of field tax audits. In reality, as much tax is recovered from tax audits as from ordinary returns. To enhance the effectiveness of these field audits, the Commissioner is empowered under the law to authorise the officers in writing to have access to taxpayer records, make copies/extracts, seize and retain such records including computers or computer disks where it is deemed necessary.

Customs Duty and Excise Duty

These together constitute the largest contribution to national tax revenues though their share is declining as income tax and VAT on domestic goods and services increase in importance. For example, during 1997/98 financial year, they accounted for 54.2 percent of tax revenue. The contribution ought to be even higher if there was no rampant smuggling especially of oil products. Within the taxes on international trade, petroleum duty is the single most important item. Excise duty and VAT on imports also form a considerable part of taxes on international trade. The rates for customs duty vary depending on the type of goods as categorised by the tax tariff code but range between 0-20 percent. The general trend over the last eight years has been a reduction in the customs duty rates. This has partly been in response to persistent smuggling from neighbouring countries due to relatively lower taxes in those countries and partly as away of trying to harmonise rates within the Preferencial Trade Area (PTA) in the East and Central African region. As of the last financial year, the following rates applied for excise duty on local goods:

Table 5.23

Item	Duty rate 1998
Cigarettes	122%
Beer	65%
Sodas	Ush. 200/= per litre
Spirits	45%

Regarding excise duty on imported goods, also like customs, it varies with respect to classification by the tariff code. The rate may range from about 10 percent on ordinary excisable goods to 20 percent on luxury imports.

h. The Appellate System

A taxpayer who is dissatisfied with an assessment may lodge an objection in writing with the Commissioner within 45 days (30 days for VAT) stating clearly the grounds of objection.

Where the Commissioner is satisfied that due to reasons like sickness or absence from Uganda the taxpayer could not file an objection in time, he may extend the period for lodging in the objection. Prior to the effective establishment of the tax tribunal, all objections were usually handled and finalised with the Commissioner with a few cases ending up as court cases. However, since 1998, the tax tribunal, with powers of the high court has become operational. Any taxpayer not satisfied with the decision of the Commissioner can appeal to the tax tribunal for a review of the decision within 45 days (60 days for VAT) or to the high court. For income tax cases, if within 90 days the Commissioner has not made any decision on the taxpayer's objection, the taxpayer may in writing elect to treat the commissioner as having made a decision to allow the objection. If the tax tribunal or the high court rules against the taxpayer and he still remains unsatisfied, he can appeal to the court of appeal with the burden of proof falling on him.

5.4.2 Tax Revenue by composition

The following tables show the domestic revenue by composition for the period 1992/93 to 1997/98. From both tables, it is clear the role indirect taxes play as revenue sources for Uganda. On average, indirect taxes have been contributing 85 percent of the total tax revenue for the period under consideration. Also the dominant role played by taxes on international trade is very evident. A trend worth noting is the sizeable contribution being made by Value Added Tax. Though this is a new tax only introduced in 1996, it is already claiming almost 30 percent of total national tax revenue for 1996/97 and 1998/98. If managed well, it is likely to become the leading tax head soon. The taxes under the heading- other tax sources include all those from sources such as licenses, rotary charges and sale of official forms.

I must honestly comment on this recurrent performance that it ought to have been better for any of the years under consideration. The most serious problem afflicting the Ugandan revenue system is corruption. A lot of taxes are either evaded through connivation with tax officials or by influence peddling from top politicians and the military. A lot of non-tax revenue rarely finds its way to the government treasury. Corrupt civil servants and other government agencies stand in as a bottleneck.

Table 5.24 Recurrent Revenue performance: 1992/93-1997/98(Million shillings)

Source of revenue	1992/93	1993/94	1994/95	1995/96	1997/98	1997/98*
Income tax	**40,275**	**57,369**	**77,170**	**82,918**	**100,603**	**123,400**
PAYE	10,312	14,611	20,329	25,023	38,324	47,800
Other	29,963	42,757	56,841	57,896	62,279	75,600
INDIRECT TAXES	**245,811**	**335,019**	**445,059**	**555,800**	**640,282**	**687,123**
Export tax			14,249	12,855	2,728	400
Customs Duty	**125,303**	**152,388**	**190,905**	**237,497**	**272,118**	**264,800**
Petroleum products	84,655	92,728	119,663	150,962	197,645	186,600
Others	40,648	59,660	71,242	86,535	74,473	78,200
Excise Duty	18,779	42,415	51,965	67,686	104,264	115,200
Sales tax & CTL/VAT	83,211	115,488	158,745	204,263	221,009	253,923
Sales Tax	73,593	100,038	136,439	178,515		
Imports	37,210	53,698	74,882	93,930		
Local	36,383	46,340	61,557	84,585		
CTL	9,618	15,450	22,306	25,748		
Other tax revenue	18,519	24,728	29,195	33,499	40,163	52,800
NON-TAX REVENUE	**2,402**	**6,765**	**8,965**	**7,938**	**21,614**	**n/a**
Dividends	1,194	3,617	4,000	1,356	8,000	n/a
Sale of goods and services	1,209	3,148	4,965	6,581	13,614	n/a
TOTAL	**288,489**	**399,152**	**531,194**	**646,656**	**762,499**	**810,523**

* Preliminary figures.
Source: Ministry of Finance, Uganda Revenue Authority, Auditor Generals Office.

A close examination of table 15 gives a clear picture of how heavily petroleum products are taxed in Uganda. For each year under consideration, tax on petroleum products account for between 60 and 75 percent of the revenue collected from customs duty. This heavy taxation of petroleum products has led to persistent smuggling of these products especially from Kenya to the extent that oil companies have had to close many petrol stations in parts of eastern Uganda where easily obtainable cheap smuggled petrol meant the petrol stations cannot sell. This heavy tax also contributes to the high transport costs within the country and of course to the high cost of many tradable goods. However, efforts were made during the 1998/99 national budget to reduce the taxes on fuel as one way of addressing the problem of smuggling petrol products.

The small contribution of taxes on employment reflect the fact that the wage level in the country is still very low. Most people employed whether in the public or private sector are either below the minimum threshold or in the lower marginal tax rates. Also many people are employed in the informal sector and their wages go untaxed as this sector poses a lot of difficulties to tax authorities. In the first instance, there no proper records in this sector. Secondly, in some cases some top politicians manipulate it for their own benefits and make it hard for tax authorities to fully bring it into the tax bracket.

Table 5.25 Recurrent Revenue 1992/93 to 1997/98

(by percentage)

Source of Tax	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Income Tax	**14**	**14**	**15**	**13**	**13**	**15**
PAYE	3.6	3.7	3.8	3.9	5	5.9
Other	10	11	11	9	8	9
Indirect Taxes	**85**	**84**	**84**	**86**	**84**	**84.8**
Export tax	0	0	3	2	0.4	0
Customs Duty	43.4	38.2	35.9	36.7	35.7	32.7
Petroleum products	29	23	23	23	26	23
Others	14	15	13	13	10	9.6
Excise Duty	7	11	10	11	14	14.2
Sales tax and CTL/VAT	28.8	28.9	29.9	31.6	29	31.3
Sales tax	25.5	25.1	25.7	27.6		
Imports	12.9	13.5	14.1	14.5		
Local	3.3	3.9	4.2	4		
Other tax revenue	6.4	6.2	5.5	5.2	5.3	6.5
Non-Tax revenue	**0.8**	**1.7**	**1.7**	**1.2**	**2.8**	**n/a**
Dividends	0.4	0.9	0.8	0.2	1	n/a
Sale of goods and services	0.4	0.8	0.9	1	1.8	n/a
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**

Source: Ministry of Finance and Uganda Revenue Authority.

5.5 Country Specific Fiscal Issues

Though Uganda's economic performance over the recent years looks impressive, there are a lot of grey areas that need serious attention lest even the little that has been achieved is lost. What I consider as the single most serious fiscal issue facing the country now is the lack of transparency in the way government uses both taxpayer's money and donor funds, let alone receipts from privatized state enterprises and failure to halt the growth of the national public debt. Lack of transparency among top government officials and the political establishment has led to complacency in the way government handles corruption. Although a ray of hope had come with the creation of the Inspector General of Government and the Public Accounts Committee, the government has sort of watered down their roles by both influencing the way officials in these bodies are recruited and it's failure to take any action when some top political figures have been implicated in some financial impropriety involving state funds. However, the national Parliament and the press are playing a leading role in trying to force government take action in some cases that often come up. As long as government does not show transparency in the way public funds are utilised, the taxpayers will continue to be less compliant as they question the moral right of government to continue taxing them when they do not see what their taxes are used for.

This has even been compounded by the way government has handled the privatization of state enterprises and its alleged misuse of the proceeds as is often reported in the local media.

Another issue with a lot of fiscal implications worth noting is the size of the government. Given the size of Uganda's economy and revenue resources, the country cannot afford to have a huge government both at local and central government levels as it does today. The current size of the government puts fiscal strain on the resource envelope. There are a lot of unnecessary duplications and or triplications of roles at all levels of government implying that the little funds available have to be distributed among various positions whose functions are virtually the same and could be covered by one position. The size of the national cabinet leaves a lot to be desired. A closer look at the cabinet reveals that some ministries have no existing functions other than just meeting some undeclared political interests of the establishment. These end up consuming a huge chunk of public funds which could otherwise be used to enhance economic development in other sectors, and yet leave the government probably even more efficient. All this makes the already weak and shaky fiscal position of the nation worse. Combined with this, there is need to cut on defense expenditure. More often than not, the actual expenditure on defense is usually much higher than the official figures and yet such high spending on defense could be avoided if there was the political will.

The other fiscal issue of concern is the continued increase in the countries external debt and the persistent budget deficit. The government needs to take all forms of measures that can remove the internal bottlenecks, which have hindered an improvement in this area. An improvement in use of state funds could be one such way.

5.6 Conclusions

Uganda has moved a long way to recover from the degeneration the country went through between 1971 and 1986. Now that the country has reached stages of steady economic recovery, what is required is not to lose track, but to strengthen the grip on the current trend and make any corrections of past errors. The social and economic indicators are still very poor which calls for more effort to improve them. There is greater need not only to invest in capital, but also in human resource development and to deploy resources more appropriately in the most productive way. The level of foreign direct investment still leaves a lot to be desired. More needs to be done to attract foreign investment to tap a lot of our undeveloped potential in areas like mining and in many aspects of agro-processing. Unless there is a big improvement in all economic indicators leading to increase in people's income, the hope to widen the revenue base are misplaced.

Establishing total security in all parts of the country stands at the heart of social and economic stability and development. We need to have an environment conducive to both local and foreign investors prevailing countrywide. Unless this is achieved, the country risks stagnating economically which may create breeding ground for political discontent and possibly civil strife again.

Lastly, the underlying factor in economic success is usually good governance. Though what we have now is the best Uganda has had in three decades, it has to be improved. More transparency and accountability is needed than what is shown currently. The dubious way in which privatization of some state companies in which top politicians used influence peddling is a clear indicator of corruption at the highest level which could ruin our economy. It should be noted that some of such dubiously sold enterprises ended in hands of shadowy investors and in some cases government ended up losing money, a situation that could have been avoided had the process been done in a more open manner.

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