

PUBLIC FINANCE

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Introduction

This report on public finance in Uganda is limited to the finances of the Central Government. It is presented in three parts. The first deals with the financial situation as it appeared during June of the financial year 1978/79. The second part is a note on the preparation of the Government's own budget for the new financial year. The third part is devoted to summary estimates of costs of the rehabilitation measures recommended by the Commonwealth Team and suggested sources of assistance towards the task for which the new Government has allowed itself two years.

FINANCIAL SITUATION AT JUNE, 1979

2. The new Government took office on the 11th of April, 1979. By established practice the financial year of the Government of Uganda runs from July to June. Less than two months was therefore available to the new Minister of Finance in which to take stock of the financial situation in the country and prepare a budget for the year 1979/80, the first year of that two year period.

3. What was the financial position disclosed by the books of the Central Government in the final month of the 1978/79 financial year? (Because communications with certain parts of the country were still disrupted, the position in regional and district administrations could not be taken into account.) The main picture was of an accumulation of short-term obligations measured in thousands of millions of shillings which dwarfed any short-term assets which might be in hand in the Treasury - deficits on both the recurrent and capital accounts of the central Government, foreign debt service payments in default, sums due to the Bank of Uganda in respect of foreign exchange obtained without local cover, and deposits for investment not yet invested.

Accumulated Deficits on Recurrent and Capital Accounts

4. The details of the financial picture were as follows:-

(a) According to the printed Financial Statement issued by the Amin regime at the beginning of the financial year 1978/79, the accumulated deficits on recurrent and capital accounts would amount to Shs. 7,619 m. by the end of the year. As the end of the year drew near, Treasury officials were convinced that the debit balances would be much higher. Such debit balances have to be financed, however, by short-term borrowing either from the Central Bank, the banking system or the public, and the only such borrowings we were able to identify were -

Ways and means advances from the Bank of Uganda	Shs.5,275 m.
Treasury bills outstanding	<u>Shs. 998 m.</u>
Total	Shs.6,273 m.

Obviously, either some long-term borrowing had been overlooked or the actual deficits were somewhat less than the forecast.

(b) Debt charge payments on certain loans had been in default, some since 1975. The defaults were of two kinds: payments not made by the Treasury (Shs. 136 m.), and amounts actually charged on the budget and paid over in shillings to the Central Bank but not transferred by the Bank because the foreign exchange was not available. After checking with the Bank, the Treasury gave the figure for these payments as Shs. 396 m.

- (c) Foreign exchange obtained without local cover. Beginning in June of 1975, various ministries had obtained advances of foreign exchange from the Central Bank to make payments overseas for which they had not supplied the equivalent amounts in shillings. By March, 1979, the total of such uncovered exchange withdrawals had reached Shs. 1,075 m., and the largest sums were received by the following:-

	<u>Shs. m.</u>
Ministry of Transport and Communications	448
Ministry of Finance and Planning	228
Ministry of Defence	192
Uganda Airlines	106
Ministry of Industry and Power	48

The repayments appear to have been made for a wide variety of purposes. They went to supply and procurement departments, aviation companies, motor manufacturers, schools of aeronautics, telecommunications equipment suppliers etc. Many of the payments, however, were remittances to Ugandan embassies and high commissions, with no name of an ultimate recipient appearing in the books of the Bank. On the 15th of March this year, the Bank began sending bills to the departments concerned, and Shs. 212 m. was repaid in the next three months. It can be assumed that departmental expenditure was increased in each case by the amount of the repayment, and so the overall deficit on recurrent account would not have been affected by the payment of Shs. 212 m. (For an indication of the state of the reserves in the Central Bank at about this time, see the papers on currency and the foreign exchange budget).

- (d) The Coffee and Cotton Price Assistance Funds. The balances in these two funds had remained in the books of the Treasury at Shs. 609 m. and Shs. 144 m. since August, 1978. They were deposits for investment. At the beginning of June, Shs. 609 m. from the Coffee Fund and Shs. 15 m. from the Cotton Fund remained un-invested.
- (e) Unspent Loan Balances. We were unable to discover what amounts from the long-term loans raised during the previous eight years might still remain unspent. Both the Treasury and the Bank of Uganda kept similar records of the amounts borrowed and repaid, and the Department of the Budget produced a statement which showed that Shs. 159.5 m. had been drawn on account of overseas loans between 1977 and 1979, but the relationship of the amounts taken on capital revenue and the expenditure on the projects for which the loan was raised in the first place needs to be more accurately recorded in future.

5. A schedule of the short-term indebtedness of the Central Government would therefore appear as shown below:-

	<u>Shs. m.</u>
Ways and means advances	5,275
Treasury bills outstanding	998
Debt charges unpaid by the Treasury	136
Local cover owing by various ministries to the Central Bank	<u>1,075</u>
Approximate amount of the Accumulated Deficits	7,484
Uninvested portion of the Coffee and Cotton Price Assistance Funds	<u>625</u>
	<u>8,109</u>

6. Parastatal obligations and commitments. We refer in other papers to the number of parastatal bodies which were in operation at the end of the previous regime. Some of these were major public enterprises reporting to various ministries, but not provided with appropriations in the Central Government's budget. The Uganda Posts and Telecommunications Corporation is an example. Set up in 1977 to take over Uganda's postal, telegraph and telephone services when the East African services ceased to be provided regionally, it took on heavy external obligations at its creation, and evidently exercises an independent authority to incur commitments in local and foreign currencies. Towards the end of May, it reported total borrowings (including interest) of Shs. 272 m. of which Shs. 145 m. appeared to be short-term in character, as well as overseas commitments on suppliers' contracts and other obligations to the equivalent of Shs. 101 m. It had embarked on a building programme which was likely to cost Shs. 247 m., had spent Shs. 75 m. on account of this programme, and owed Shs. 11 m. to foreign contractors for work already done. It possessed neither share nor working capital. The Uganda Railways Corporation is another such agency. It reported commitments of Shs. 994 m. but it has no outstanding obligations for work done but not paid for. So are Uganda Airlines and Radio Uganda. How many other parastatals might be in a situation similar to the Posts and Telecommunications Corporation we did not have time to find out. One assumes, however, from the number of parastatals in existence and the general view that most were dependent on the Government for financial support, that its total outstanding obligations were considerably larger than any sums which appeared in the Treasury books.

7. Guarantees by the Government. Certain contingent liabilities of the Government, not expected to become immediate claims on public funds, were also to be taken into account. Various banks and credit institutions had made loan and overdraft facilities available to parastatals and to companies partly owned by the Government, on the assurance of a government guarantee. According to lists prepared for us in the Ministry of Finance, on the 15th of June there were loans of DM 3.2 m., US\$ 675,000, £533,000, 928,000 units of account of the ADB and U. Shs. 175.4 m. outstanding under such guarantees. Estimates given by four of the commercial banks a week or two earlier however, indicated that their commitments to lending secured by guarantees from the Government were in excess of Shs. 449 m. Clearly, it is necessary to find out early what amounts are actually outstanding, say at 30th June, 1979, under authorised guarantees from the Government.

8. It would be hazardous to claim that the obligations mentioned above represent a complete list of the direct and contingent liabilities the Government might be called upon to meet at very short notice. In view of the conditions which prevailed in the final years of the Amin administration, it cannot be asserted that no other loans were unpaid or that no guarantees were given by ministries which do not appear in the records of the Ministry of Finance or the Treasury.

Recent Budgetary Out-turns

9. We tried to reconstruct the budgetary out-turns over the past six years, so as to see how such enormous deficits had been accumulated. The summarised result of this effort is set out in Table 27.1. It is clear from the table that the previous Government had pursued a consistent policy of deficit-budgeting throughout the period - enabled to do so only because of a compliant Central Bank's continuing supply of ways and means advances. It should be noted in this connection:-

that the Treasury bill limit has remained at Shs. 1,200 m. since 1973, and so the growth in the accumulated deficit was totally financed over these years by ways and means advances. The preference for advances from the Bank is probably explained by convenience and by the difference in interest cost - the interest on Treasury bills may be 6 or 6½%, on ways and means advances it is only 2½%.

Table 27.1

Budgetary Operations Of The Central Government
From 1972/73 to 1978/79

	1972/73	1973/74	(Shs.m.) 1974/75	1975/76	1976/77	1977/78	1978/79
Recurrent revenue		1324	2099	2244	5698	5177	2905
Recurrent and Consolidated Fund expenditure		2027	2429	2955	3681 (a)	3748 (a)	4131 (a)
Recurrent surplus (+) or deficit (-)		-703	-330	-731	+2017	+1429	-1226
Capital revenue		54	17	120	23	28	1145
Proceeds of loans						80	
Capital expenditure		635	832	826	1037 (a)	2044 (a)	1232 (a)
Capital surplus (+) or deficit (-)		-581	-815	-706	-1014	-1936	-87
Accumulated deficit at year end	-1405	-2689	-3834	-5271	-4268	-4775	-6088
Accumulated ways and means advances at year end	205						5275
Treasury bills outstanding at year end	1200						998
Difference							185

(a) Provisional results based on Exchequer issues, in some departments.

Source: Team computation from data in IMF report and supplied by Ugandan authorities

10. It will also be seen from Table 27.1:
- (a) that a short-lived rise in recurrent revenue between 1976 and 1978 encouraged the regime to increase its recurrent expenditure. By 1978/79 this expenditure has risen to a level quite beyond the capacity of the ordinary annual revenues to sustain; and
 - (b) that although capital expenditure is quite properly financed with long-term borrowing, the military regime was apparently unable to cover much of its development programme in this way. A deficit was incurred on capital account in every year of the six, and it was not until 1978/79 that the proceeds of specific and additional taxes were allotted to the capital budget.

11. It follows from (a) above that the new Government will be obliged either to increase the recurrent revenues appreciably above the amounts received in 1978/79, or to bring recurrent votes down to about Shs. 3,500 m. a year. The unavoidable conclusion from (b) is that the very understandable desire on the part of the new Government to relieve the people's tax burden, cannot be indulged at present. All proposals to reduce the rates of the consumption duties that finance the capital budget will have to be received with caution and should be entertained only after business activity has revived and after the financing of the costly rehabilitation programme is assured.

12. The Accumulated Short-term Debt. We turn now to consider what the new Government might do about the legacy of short-term debt it inherited from the Amin regime. The Government cannot continue the practice of borrowing from the banking system. Moreover, as business activity revives and reconstruction gets under way, both public and banking response to new Treasury bill issues are likely to contract rather than expand. So the Government's room for financial manoeuvre is very restricted.

13. The ways and means advances cannot simply be written off. Yet little help with this burden can be expected from external aid donors, who will regard it as a purely domestic problem and capable of domestic solution. Reform of the currency could help reduce the weight of the debt without altering the amount of the advances, but, pending a decision on this wider issue, the Government should make a start on paying off the advances. Since the orthodox source of repayment is the proceeds of new long-term issues of Uganda stock, the market might be tested with a five and ten year public issue, with a reasonable coupon rate, at some time in the month of September.

14. The Government might then look around for assets which can be realised. An obvious possibility is the property of departed non-Ugandans which was vested in the state and placed in the charge of the Custodian Board. Its disposal, whatever the method adopted, should yield a surplus and the only prior claim against that surplus would be the old debts to the commercial banks.

Long Term Debt

15. Officials have expressed concern at the growth in long-term government debt, especially overseas debt, in the past eight years. As a percentage of annual government revenue, however, debt service charges at Shs. 586 m. (part of it incurred for supplies which would be private sector liabilities in other countries) are not high. (We comment further on debt charges in the following section).

THE BUDGET FOR 1979/80

16. We were afforded the opportunity to confer with officials of the Ministry of Finance as they worked on the preparation of the new budget, and found ourselves in broad agreement with the general lines on which it was being drawn up.

17. Two budgets for this year have been proposed by us - the first to be tabled before the end of June, and a supplementary budget, to be ready by September or October, which will embody the rehabilitation programme for 1979/80. Presumably, this supplementary budget will be based on priority suggestions by the Commonwealth Team. The Government should be able to present a coherent revenue component to that

supplementary budget, since the types and amounts of external aid which Uganda has received or may expect to receive this year should be known by them.

18. The first budget should be planned as a balanced budget. Expenditure should be kept within the limits of the revenue, recurrent and capital, already in sight, and only minimum provision should be made (in the capital budget) for rehabilitation expenditure. We are agreed that the motive power for that essential first push which is needed to start the engine of national recovery will come from expenditure outside the Government's budget. It is our unanimous opinion that the absolutely first requirement now is to have assured supplies of a small range of basic consumer goods quickly available in the shops and at reasonable prices. This must be done within the next few weeks. Production will begin with the farmer and the wage labourer. Until these two groups are able to reckon the value of new income in terms of the increased supplies of these basic goods it will buy at home, the incentive to resume producing and to leave off magendo activities will be absent. The Government urgently needs, therefore, an immediate infusion of foreign exchange, sufficient to pay for imported supplies of salt, sugar, soap, cooking oil, textiles and paraffin, which can be distributed either through parastatal or commercial channels or both.

19. What the first budget can and should ensure is that the essential first push does not falter after it starts. So its provision should aim at making sure

- that the governmental machinery is back in good working order - offices repaired and re-equipped and field staff mobile once more;
- that there are no transport bottlenecks, i.e. lorries are available to move spare parts and raw materials to the farms and factories and move produce from the farms.

20. Recurrent expenditure would accordingly be held within a maximum Shs.3,523 m., which is the estimate of the likely revenue for 1979/80, as reckoned by Treasury officials on the basis of existing rates of tax with minor adjustments. The estimate is up from Shs.2,905 m., the revised estimate for 1978/79, as the following figures show:

Recurrent revenue	1978/79 Revised (Shs.m.)	1979/80 Estimate (Shs.m.)
Income tax		
P.A.Y.E.	85	100
Business	210	240
Selective income levy	4	4
Export duties		
Coffee	1,200	1,069
Cotton	Nil	Nil
Hides and skins	Nil	Nil
Customs duty	250	310
Excise duty	80	200
Sales tax		
Imported goods	350	450
Locally produced goods	500	880
C.I.L.	22	20
Road licences	22	15
Driving permits	8	5
Freight charges	26	25
Stamp duty	4	4
Miscellaneous receipts	<u>144</u>	<u>201</u>
	<u>2,905</u>	<u>3,523</u>

21. The estimated receipts on capital account are Shs. 1,956 m. compared with Shs. 1,041 m. in 1978/79, as set out below:-

<u>Development Budget Revenue</u>		
	1978/79 Revised (Shs.m.)	1979/80 Estimate (Shs.m.)
Dividend and profits	41	146
Public sector investment contribution	1,000	1,500
Loans	-	310
	<u>1,041</u>	<u>1,956</u>

The effort should be made to keep the allocation for development (i.e. capital) expenditure within the amount of Shs. 1,956 m. plus any sums firmly promised by external donors before the date of presentation of the budget to the Council.

22. A few of the measures to be reflected in such a budget are indicated below.

Recurrent Revenue

The Coffee Export Tax: a reduction is proposed in the rate of the tax. This will facilitate increased prices to the farmer and small adjustments in margins to the processors, which we consider absolutely indispensable. The Team is convinced that without the proposed incentive changes, deliveries of coffee through official market channels will continue to decline and the diversion of supplies to unofficial buyers across the borders of the country will not cease. The consequences of a failure to attract coffee deliveries into official marketing agencies once more would be disastrous to the public revenue.

Recurrent Expenditure

Salaries: no provision should be made for increases in civil service pay at the present time.

Defence Vote: should provide for little more than the pay and allowances of personnel, including recruits and men engaged on security tasks. Equipment is regarded as a proper subject of bilateral aid and will be mentioned as such in our rehabilitation proposals.

Capital Expenditure

As many on-going projects and programmes as possible should be suspended. (It is hoped that reconstruction will begin soon enough to avoid aggravating unemployment). Capital votes should be applied primarily to the restoration of government administrative machinery - i.e. the repair of office buildings and houses and the replacement of furniture, transport vehicles and stores, and the provision of the tools and equipment needed to begin the reconstruction work.

23. Overview: A first budget of these modest and austere dimensions would represent an act of faith in the generosity of other countries which one hopes that later events will justify.

The Legal priority of Debt Charge payments

24. The pleasing facade of a budget in balance over a full year might mask problems of foreign exchange shortages related to the public debt which will reach critical proportions in the next few months, and the Government should decide early what it will do about them.

25. Two statements on public debt charges have been prepared in the Treasury:-

- (1) Local cover with the Bank of Uganda (i.e. payments made by the Treasury on public debt but held up by the Bank through shortage of foreign exchange reserves) Shs.336 m.
- (2) Statement of Foreign debt service payments overdue and unpaid at 30 June Shs.136 m.

Now public debt payments are by law automatic charges on the Consolidated Fund, and provision is being made under that section of the draft budget to meet the instalments of public debt charges which are due in 1979/80 (but not the outstandings). The total amount, according to the Treasury, is Shs.586 m. of which Shs.274 m. is due on overseas loans. (See the schedule of debt charges, external and local, in Table 27.2).

Table 27.2

Schedule of Debt Charges

A. On External Loans 1979/80 (Shs.m.)

Creditor	Principal	Interest and service chgs.	Total
UK	7.9	3.9	11.8
	2.3	1.5	3.8
	10.0	-	10.0
USA	2.5	1.7	4.2
USSR	37.2	15.0	52.0
China	7.3	-	7.3
Netherlands	1.3	0.5	1.8
Denmark	5.0		5.0
Saudi Arabia	21.3	3.1	24.4
United Arab Emirates		0.4	0.4
West Germany	11.3	4.5	15.8
Japan	3.3	2.0	5.3
India	3.9	0.5	4.4
Commonwealth Asst. Fund	2.1	1.2	3.3
IBRD	5.6	0.9	6.5
IDA	2.0	3.0	5.0
ADB	8.3	15.7	24.0
Arab League		0.4	0.4
Islamic Dev. Bank		0.1	0.1
Arab Bank for E.D. Africa		0.2	0.2
Suppliers Credits	52.1	15.1	67.2
Contractor Finance	12.5		12.5
Government Participation	7.2	1.0	8.2
Total External	<u>203.2</u>	<u>70.4</u>	<u>273.6</u>

B. On Local Loans (Shs.m.)

Creditor	Skg.Fund	Interest	Total
Interest on short term loans		97.0	97.0
" " tax reserve certs.		0.3	0.3
Uganda local loans	63.4	150.4	213.7
Gov. housing loans	0.7	0.3	1.0
Total Local	<u>64.1</u>	<u>248.0</u>	<u>312.0</u>
Total External and Local	<u>267.3</u>	<u>318.4</u>	<u>585.6</u>

26. If the present Government tries to meet the overdue amounts at (1) and (2) above, as well as those items in the Shs. 274 m. which will fall due in July, August and September, it will certainly further reduce its foreign exchange balances and aggravate the foreign exchange stringency in the first six months of the year. In the circumstances, the Government ought to consider an early appeal to its long-term government creditors (i.e. except the commercial suppliers and the international finance institutions) for temporary relief. It would announce an immediate moratorium on all foreign public debt payments, especially the overdue amounts inherited from the Amin regime, promise to resume payments by 1980 and undertake to confer with all its creditors about debt payments before the end of this calendar year.

27. In the meantime, it should use the interval - (a) to sort out the various obligations which were incurred by the Amin regime and (b) to consider in respect of Uganda's earlier obligations what reliefs it will ask for. As to debts incurred since 1972, chronological schedules of the loans obtained, classified by creditor, are available in the Treasury:

- (a) some are balances on the purchase price of foreign companies taken into government ownership by the previous regime. (Government might wish to return some of these to private ownership and recover the instalments paid);
- (b) others are due on large scale construction contracts (officials believe the terms were onerous) with transnational firms;
- (c) one loan from Saudi Arabia was reported to have been simply passed on intact to the Moslem Council;
- (d) in view of the purpose for which loans from other 'friendly' countries were used, it could be argued that the loans were of no benefit to the development of Uganda but rather personal assistance to the former President and therefore the lenders should not press for repayment.

28. As regards the debits incurred before 1972, Uganda as a 'least developed' and very seriously affected country is entitled to apply to its developed country creditors for relief from outstanding government-to-government loans. The major portion of Uganda's overseas debt falls into this category.

Taxation Policy

29. The preponderant position of the coffee export tax yield in total government revenues, and the vulnerability of this tax to events external to Uganda, raise issues of taxation policy, to which obviously the Government cannot address itself in the few weeks before the 1979/80 budget is brought out, but which it ought to take up very soon.

30. The Government has a clear interest in enlarging its revenue base and reducing its dependence on the export tax which is so directly affected by world market movements. Table 27.3, extracted from a recent paper by the Ugandan Commissioner of Taxation, shows the changes in the relative contributions by the major types of tax to the revenue of Uganda over the years 1971-4 and 1975-8. (The percentages changed somewhat in 1978/79, but seem likely to return to the 1977/78 pattern in the coming year).

31. Attention is invited to the dramatic change in the position of the income tax. If the revenues from the same major groups of taxes are examined in absolute rather than percentage terms, the Government will find that the present yield from the income taxes bears little relation to the rise in total disposable income in the country which has taken place since 1973. On the evidence, it appears that a major effort to equip the Income Tax Department, so that it can pursue the tax evaders and bring in the self-employed who make no returns, would produce substantial increases in the revenue from individual and corporate income taxes.

Table 27.3

Changes in the Relative Importance of Different Taxes in the Period 1971-74 - 1975-78 (%s)

1971/72		1972/73		1973/74	
Income tax	22	Export tax	29	Export tax	26
Customs	18	Soles tax	18	Soles tax	21
Exports	18	Income tax	17	Customs tax	16
Sales tax	17	Excise	16	Excise	13
Excise tax	15	Customs	12	Income tax	13
Transfer tax	0.5	SIL	1	SBL	1.3
Development	0.4	Transfer tax	0.5	CTL	0.9
SIL	0.1	CTL	0.4	Transfer tax	0.8
				SIL	0.4
	91		93.9		92.4
	====		====		====
1975/76		1976/77		1977/78	
Export	34	Export tax	43	Export tax	57
Sales tax	28	Sales tax	31	Sales tax	20
Customs	14	Income tax	8	Customs	7.3
Income tax	9	Customs	6	Income tax	7.1
Excise	6	Excise	4	Excise	1.6
SIL	0.2	CTL	0.8	CTL	0.7
Transfer	0.1	SIL	0.3	SIL	0.2
CTL	0.1	Transfer tax	0.1		
	91.5		93.2		93.0
	====		====		====

SIL: Selected Income Levy

CTL: Commercial Transactions Levy

SBL: Special Business Levy

32. Another question of taxation policy - the possibility of capturing for the public revenue some of the economic rent that will accrue to private distributors of scarce goods is dealt with in the paper on foreign exchange policy.

THE REHABILITATION PROGRAMME

33. The programme on rehabilitation has been prepared by the Commonwealth Team after consultation with various officials of the Uganda Government and other representative Ugandans. It is presented for consideration by the Government of Uganda and by bilateral donor governments who might contemplate participation with the Government in the effort to restore the society, economy and administration of Uganda. It is assumed that an early meeting will be held between the Government and the donor countries and organisations, at which the need for assistance will be thoroughly ventilated. It will, of course, be the Government of Uganda's decision whether any particular measure will be carried out, and in this decision it will, no doubt, be influenced by the availability of offers of aid.

34. Financial schedules which show the cost of the programme, classified by sector, are given in the annexes attached to this paper, viz:¹

Annex	27.1	:	Agriculture (Schedule I)
"	27.2	:	Transport (Schedule II)
"	27.3	:	Communications (Schedule III)
"	27.4	:	Mining, engineering and chemical industries (Schedule IV)
"	27.5	:	Other manufacturing industry and tourism (Schedule V)
"	27.6	:	Social infrastructure (Schedule VI)
"	27.7	:	Finance and administration (Schedule VII)

35. The total financial requirements in each year are set out below.²

		(Shs. m.)			
		<u>1979-80</u>	<u>Recurrent</u>	<u>Capital</u>	<u>Total</u>
I	Agriculture		280	544	824
II	Transport (a)		2	746	748
III	Telecommunications (a)		41	399	440
IV	Mining, Engin. and Chemical Ind.		-	316	316
V	Other Industries and Tourism		-	638	638
VI	Social Infrastructure (Health, Education, Water, Housing)		150	1,894	2,044
VII	Administration and Finance		<u>70</u>	<u>824</u>	<u>894</u>
Total 1979-80			<u>543</u>	<u>5,361</u>	<u>5,904</u>
		<u>1980-81</u>			
I	Agriculture		346	419	765
II	Transport (a)		-	793	793
III	Telecommunications (a)		29	422	451
IV	Mining, Engin. and Chemical Ind.		50	224	274
V	Manufg. Industries and Tourism		-	403	403
VI	Social Infrastructure (Health, Education, Water, Housing)		175	1,874	2,049
VII	Administration, Finance		<u>36</u>	<u>800</u>	<u>836</u>
Total 1980-81			<u>636</u>	<u>4,935</u>	<u>5,571</u>

(a) Provision for railway signalling and telecommunications is made under transport, but the needs are described in the telecommunications sector paper (Paper 20).

1. In the case of social expenditures (education, health, housing, etc.), the foreign exchange element in these tables is the same as in the foreign exchange balance in Chapter 3, but imports in that table also include private sector imports (consumer goods, vehicles, etc.), and exclude, for example, the capital inflows shown in Schedule VII.

2. It should be noted that the provisions under Finance Annex 27.7 are only intended to be met by loans.

Defence

36. One major element in the rehabilitation of the country - defence - does not appear in our schedules. The proposed allocation for defence in the first budget does not provide for the equipment of the new armed forces (see paragraph 16). Little more than an embryo defence organisation is at present in existence, and no means of estimating equipment costs were available to us. We hope that some cooperating bilateral donor country, or countries, will offer to meet the Government of Uganda's urgent requirements of equipment for defence.

Capital Costs

37. The programme is primarily a programme of capital expenditure, but estimates of recurrent expenditure are provided in those sectors where it appears that the existing facilities will need to be supplemented or strengthened in order to ensure that the capital programme is completely effective.¹ The total capital expenditure including amounts to be made available through financial institutions is rather over Shs. 10,000 m.

38. With a few exceptions, we recommend that the practice of limiting external aid to the foreign exchange costs of a programme or project be varied in the case of the Ugandan Programme and that the local share of expenditure be permitted to qualify for aid. The logic of this is explained in Chapter 3 above.

39. The majority of the estimates reflect the judgement of the members of the Team as to costs: we have either carefully reviewed estimates we received or have drawn up our own detailed estimates. In a few cases (e.g. housing costs, clay and clay products industries) we have included, but do not necessarily endorse, the estimate of requirements submitted by the responsible officials. Under one or two items, our provision is a general allocation intended to meet expenditure which cannot be quantified at the moment, especially for 1980-81.² Our estimates only represent a rough first draft and the Government of Uganda will certainly wish to examine every estimate afresh before approving a programme for inclusion in its budget or making it the subject of an aid request.

Finance and Administration

40. The justification for most items in Schedules I to VI appear in the sector papers, but a word must be said about the schedule headed Finance and Administration. Three separate proposals for the provision of funds for local institutions have been made.

41. In the case of the Cooperative Bank, our proposal is that this institution be allowed to become the channel of all types of finance to its member unions and their associated institutions. The Bank's requirements of additional funds over the rehabilitation period are estimated at Shs. 400 m. We hope that some donor country having a specific interest in the development of cooperatives will undertake to supply on reasonable terms the new funds which the Cooperative Bank now requires. This Bank is not a government-owned institution. It is owned by its 43 cooperative unions which serve hundreds of cooperative farmers' associations. In the case of the Uganda Development Bank, it is assumed that the additional capital provided for in the schedule will be provided on loan, which will be negotiated between the Government of Uganda and international finance agencies, such as the African Development Bank and the IBRD. The Uganda Development Corporation appears to us likely to qualify for assistance from the IBRD on IDA terms. Bilateral assistance is not, however, ruled out. 'Other Agricultural Finance' provides for the farmers to be supplied through local banks and credit institutions.

42. Under 'Administration', provision is made to meet the local costs of the technical assistance personnel we suggest that the Government of Uganda should invite to assist with

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1. In some cases, it was difficult to separate local from foreign exchange spending, and recurrent from capital.
 2. In the case of some items in Schedules V, VI and VII, for which 1980-81 estimates were unavailable, it has been provisionally assumed that the expenditure will be roughly the same as in 1979-80.

the rehabilitation programme. The average local cost in each case has been estimated on the basis of existing practice in the Government of Uganda. It amounts to approximately Shs. 120,000 per person and covers housing, internal travel and subsistence plus the cost of supplying secretarial assistance and accommodation. Recruitment of about 540 such technical assistance personnel has been allowed for in the first year, 300 in the second.

Sources of Assistance

43. We suggest that donor governments should consider the possibility of 'adopting' particular items in the programme for which they would undertake to provide, either alone or in conjunction with another government or international finance agency, all the external aid required.

44. At first sight, it may seem strange to be proposing two separate meetings with donor countries and institutions to consider the Uganda rehabilitation programme. The fact is, we do not regard it as possible to convene a full meeting of all potential donors of project aid before late August or September. But the urgent need for assistance in the first six months of the rehabilitation period renders it impracticable to wait so long. It appears very desirable, therefore, that a smaller meeting of potential donors should be held not later than the end of July to consider the specific needs of the first six months, and to see what non-project help can be provided forthwith.

45. The Government of Uganda should regard the IBRD (through the IDA window) as a general source of assistance towards the implementation of the rehabilitation programme. A World Bank Mission should be invited early to visit Uganda and to consider in particular the possibilities of programme aid (for the second half of 1979/80, and for 1980/81) as well as project assistance.

46. Assistance on a project-by-project basis should be sought from both bilateral (Government) sources and from the multilateral finance agencies, as soon as a project - whether sub-sector, programme or the rehabilitation of an individual enterprise - is ready for submission. (The Government should invite help from the UNDP, E.A. Development Bank, ADB and IBRD in preparing project applications).

47. It will no doubt select the governments to be approached with particular projects. Governments whose industries have been traditional suppliers of equipment to the Ugandan ministries and agencies will no doubt expect to be approached with requests for project aid towards the programmes and projects in those ministries.

48. Where the Government prefers to place orders for equipment and services on the basis of competitive bidding, the funds should be sought from regional or international finance institutions - the ADB or the IBRD. Bank funds should normally be available to Uganda on IDA terms.

49. An agricultural project application to cover foodstuffs, minor crops, tobacco resuscitation and even irrigation should commend itself quite readily to the International Fund for Agricultural Development, if it can be shown that the benefits of the project will flow directly to the small farmer. Assistance from IFAD should be available on highly concessionary terms.

SCHEDULE I

Agriculture: Rehabilitation Expenditure (Shs.m)

Project/Programme	1979/80			1980/81			Remarks	
	Recurrent		Capital	Recurrent		Capital		
	For. Total Exch.	Total	Local For. Exch. Total	For. Total Exch.	Total	Local For. Exch. Total		
Major Export Crops	104	113	30	208	238	5	166	171
Livestock	114	129	1	13	14	1	13	19
Foodstuffs		10	33	109	142	32	72	104
Sugar		20	10	50	60	10	50	60
Small Industries		1		1	1		4	4
Research Extension and Planning	3	7	28	56	84	15	35	50
Special Projects	1	1	1	4	5	2	9	11
TOTAL	222	280	102	442	544	64	355	419

SCHEDULE II

Transport: Rehabilitation Expenditure (Shs.m)

Project/Programme	Expenditure 1979/80		Expenditure 1980/81		After 1981 Remarks				
	Recurrent		Capital			Capital			
	For. Total Exch.	Local	For. Total Exch.	Local			For. Total Exch.		
Railways Corporation		78	298	376	87	397	484		
Road Network		35	90	125	10	80	90		
Uganda Transport Company	2	-	24	26	-	66	66		A private Co.
People's Transport		-	17	17	-	9	9		
Uganda Co-op Trade Union		-	138	138	-	94	94		
Uganda Airlines		15	39	54	15	30	45		
Transport Unit		-	10	10	-	5	5		
Ministry of P&C									
TOTAL	2	128	616	746	112	681	793		

SCHEDULE III

Telecommunications Services: Rehabilitation Expenditure (Shs.m)

Project/Programme	Expenditure 1979/80			Expenditure 1980/81			Remarks
	Recurrent	Capital		Recurrent	Capital		
	For. Total Exch.	Local	For. Total Exch.	For. Total Exch.	Local	For. Total Exch.	
<u>Services</u>							
Postal and Telecoms. Corp.	20	303	303	20	322	322	
Broadcast Radio	3	10	10	1	21	21	
Air Navigation Services	2	56	56	3	54	54	
Meteorological Services	16	30	30	5	25	25	
TOTAL	41	399	399	29	422	422	

SCHEDULE IV

Mining Engineering & Chemical Industries: Rehabilitation Expenditure (Shs.m)

Project/Programme	Expenditure 1979/80			Expenditure 1980/81			Remarks		
	Recurrent For. Total Exch.	Capital		Recurrent For. Total Exch.	Capital				
		Local	For. Total Exch.		Local	For. Total Exch.			
Minerals & Mining Engineering & Chemicals		33	150	183	50	28	114	142	
Engineering Chemicals Total Engineering & Chemical			122	122		-	82	82	
			11	11					
			133	133					
TOTAL		33	283	316	50	28	196	224	

SCHEDULE V

Other Manufacturing Industry and Tourism: Rehabilitation Expenditure (Shs.m)

Project/Programme	Expenditure 1979/80			Expenditure 1980/81			Remarks
	Recurrent For. Total Exch.	Capital		Recurrent For. Total Exch.	Capital		
		Local	For. Total Exch.		Local	For. Total Exch.	
Textiles	24	123	147	1	22	23	
Paper, Oil, Soap	1	54	55	-	33	33	
Minor Industries	-	25	25	-	15	15	
Wood Industries	76	29	105	6	2	8	
Distillery	-	9	9	-	40	40	
Tobacco	-	28	28	-	25	25	
Building Materials	18	128	146	(18)	(128)	(146)	
Other Industries	-	100	100	-	(100)	(100)	
Tourism	10	13	23	-	(13)	(23)	
TOTAL	129	509	638	25	378	403	

SCHEDULE VI

Social Infrastructure: Rehabilitation Expenditure (Shs.m)

Project/Programme	Expenditure 1979/80			Expenditure 1980/81			Remarks	
	Recurrent For. Total Exch.	Capital		Recurrent For. Total Exch.	Capital			
		Local	For. Total Exch.		Local	For. Total Exch.		
Housing		273	891		224	732	976	
Education H	150	75	102		125	150	275	
Education L			80			200	200	
Health		40	266		(40)	(266)	(306)	
Water & Sewerage		57	110		30	87	117	
TOTAL	150	445	1,449	1,894	175	439	1,435	1,874

SCHEDULE VII

Finance and Administration: Rehabilitation Expenditure (Shs.m)

Project/Programme	Expenditure 1979/80			Expenditure 1980/81			Remarks	
	Recurrent For. Total Exch.	Capital		Recurrent For. Total Exch.	Capital			
		Local	For. Total Exch.		Local	For. Total Exch.		
<u>FINANCE</u>								
B/Payments Supl. Financial & Devpt. Institutions								
1. Co-op Bank		50	150	200		50	150	200
2. Ug. Dev. Bank		100	150	250		(150)	(450)	(600)
3. Ug. Dev. Corp.			274	274)))
Other Corp. Fin.			100	100				
<u>ADMINISTRATION</u>								
Local Costs of Tech. Asst. Personnel	70				36			
TOTAL	70	150	674	824	36	(200)	(600)	(800)

Average of
580 persons
in 1979/80
and 300 in
1980/81