

The Rehabilitation of the Economy of Uganda

a report by a Commonwealth Team of Experts

volume one



Commonwealth Secretariat

17 July, 1979

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A Report by a Commonwealth Team of Experts

At the end of April I was asked by the President of Uganda to assemble, as urgently as possible, a small team of experts to go to Kampala to assess the rehabilitation requirements of certain key sectors of Uganda's economy.

With outstanding co-operation from Commonwealth Governments, private organisations and individuals, it was possible to bring together at short notice a team of eleven highly qualified experts from eight Commonwealth countries who, after preliminary meetings in London, started work in Uganda on May 23rd. The team was led by Professor Dudley Seers (Britain) who is a Fellow of the Institute of Development Studies at the University of Sussex. The deputy leader was Sir Egerton Richardson (Jamaica) who is a former Financial Secretary to the Jamaican Government as well as its former ambassador to the United States and United Nations.

The team's report was completed in draft by the end of the first week of July, and was printed by July 17th. At the request of the Government of Uganda, the Commonwealth Secretariat is now undertaking its publication and circulation.

The report was intended to serve two purposes. It is to help the Uganda Government in formulating its own immediate programme of economic rehabilitation. It may also form a basis for the requests that the Uganda Government will wish to make to various countries and international institutions for financial and technical assistance.

While I must emphasise that circulation of the report should not be taken to imply that either the Government of Uganda or the Commonwealth Secretariat necessarily agree with the views and recommendations contained therein, I am confident that the work of the Commonwealth team and the early publication of their report can contribute materially to helping the international community to respond in a timely and adequate manner to Uganda's pressing needs.



Shridath S Ramphal

The Rehabilitation of the Economy of Uganda

VOLUME ONE

A Report by

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Commonwealth Fund for Technical Co-operation

Commonwealth Secretariat, Marlborough House, London SW1

June 1979

Disclaimer

This study by a Commonwealth team of experts was undertaken at the request of the Government of Uganda. Publication of the team's report by the Commonwealth Secretariat and its circulation have also been done at the request of the Government of Uganda. It should be noted, however, that publication and circulation of the report do not imply that either the Government of Uganda or the Commonwealth Secretariat necessarily agree with the views and recommendations contained therein.

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Sir Egerton Richardson, OJ, CMG, Kt, (Jamaica); Deputy Team Leader

President, Antennae Corporation. Formerly Jamaican Financial Secretary (1950-62); Jamaican Ambassador to the UN (1962-67); Jamaican Ambassador to the USA and Mexico (1967-72); Chairman, Executive Board International Bauxite Association (1974-75); Leader, Jamaican Delegation to the Paris Conference on International Economic Cooperation (1975-77).

Deryke G. R. Belshaw (Britain)

Reader in Agricultural Economics, School of Development Studies, University of East Anglia. Head of the Department of Rural Economy and Extension, Makerere University (1967-70); Rural Development Adviser, Ministry of Finance and Economic Planning, Kenya (1970-72); UNDP/FAO Regional Planning Adviser, Prime Minister's Office, Tanzania, and Visiting Professor, Bureau of Resource Assessment and Land Use Planning, University of Dar-es-Salaam (1975-77).

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Chief, Organisation and Management Services, Division of Public Administration and Finance, Department of Technical Cooperation for Development, UN, New York. Formerly, Principal Secretary, Office of Government Machinery (Prime Minister's Office), Accra, and Direction Staff, Ghana Institute of Management and Public Administration (GIMPA). Experience includes advisory services to various Governments and Regional Organisations in Africa, the Caribbean, Middle East and South Pacific.

Gerry Helleiner (Canada)

Professor of Political Economy, University of Toronto, Canada. Formerly, Director Economic Research Bureau, University of Dar-es-Salaam, Tanzania; Research Fellow, Institute of Social and Economic Research, University of Ibadan, Nigeria. Appointments (regular or visiting) with Queen Elizabeth House, Oxford; IDS, Sussex; International Development Research Centre, Ottawa. Member, North-South Round Table. Consultancies (among others): UNCTAD, ILO, World Bank, UNDP, CIDA.

Sam Montsi (Lesotho)

Managing Director, Lesotho National Development Corporation. Fellow of the Economic Institute, World Bank (1977); Director, Central Planning and Development Office (CPDO) Lesotho; Member of Board of Directors, Lesotho Commercial/Development Bank (1973-76); Member of Board of Directors, Lesotho Airways Corporation; Member of Pioneer Industries Board; Member of Board of Directors, LNDC.

David Nowlan (Canada)

Professor of Economics and Vice-Dean of Graduate Studies, University of Toronto. Formerly, Chief Transportation Economist, Ministry of Economic Affairs and Development Planning, Dar-es-Salaam, Tanzania (1966-67); Director, University of Toronto Tanzania Project (1968-73).

Donald Peckham (Australia)

Chartered Civil Engineer, Country Roads Board of Victoria, Assistant Divisional Engineer in Bendigo Division, Victoria. Formerly, with Ministry of Works, Northern Nigeria (1958-64); City of Birmingham Public Works Department (1952-58); Senior Assistant Engineer, Keny County Council (1964-67); Reconnaissance Survey for trunk road realignment, Niger Dam Scheme.

P. K. Sardana (India)

Senior Engineer (Corporate Planning), Bharat Heavy Electricals Limited, Bharat, New Delhi; presently working for Ministry of Industry, Government of India on secondment basis. Conducted the first Technological Forecasting exercise in Indian industry by using the Delphi technique; member of Industrial Technology Working Group of the Indo-US Joint Commission. Attended first Commonwealth Industry Ministers' Conference (March 1979).

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Senior Lecturer in Economics, La Trobe University, Melbourne. Formerly, Agricultural Extension Officer in Papua New Guinea, with research interest in the transition from subsistence to market economy.

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Member, Technical Assistance Group, CFTC. Director for Heavy Industries, National Development Corporation, Tanzania (1972-77).

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PREFACE

Terms of Reference: 'To assess the task of rehabilitating the Uganda economy, and to recommend on priorities, with particular reference to immediate needs for technical and financial assistance.'

This report is the outcome of an urgent appeal by the Uganda National Liberation Front Government to the Commonwealth Secretariat that a team should visit Uganda to report on the requirements for rehabilitating the economy, concentrating on the period of rehabilitation in the next 18-24 months, not on the emergency needs for relief which would largely have been met by the time we reported. The report was requested by the end of June.

2. The Commonwealth Secretariat reacted rapidly. This was due to the high priority accorded the project by the Secretary-General, Mr. S. S. Ramphal. The Managing Director of the Commonwealth Fund for Technical Co-operation (CFTC), Mr. David Anderson, immediately contacted the prospective Leader and Deputy Leader of the Team and with the help of Mr. Michael Faber and an Executive Assistant, Miss Jeanne Schoenberger, started to recruit a group possessing the necessary professional skills and width of experience, drawing on the assistance of a number of Commonwealth Governments. Most of those approached responded positively, despite considerable personal inconvenience.

3. The timetable reveals the pace at which the team was brought together and had to set about its task:

April	11	Liberation of Kampala.
April	23	The UNLF Government approaches the Secretariat for assistance.
May	1	Mr. David Anderson visits Kampala to discuss the project.
May	21	Team assembles at Marlborough House for briefing by the Secretary-General and his officials.
May	22	Team leaves London.
May	23	Briefing session in Kampala with senior officials.
May 24 -		
June 8		Collection of material in Kampala and on safari.
June 9 - 16		Writing and discussion of first draft.
June 17 - 21		Revision of draft.
June 21		Team leaves for London.
June 23 - 28		Discussions with Secretary-General and his staff; final editing process.
June 27		Informal discussions on draft report with Mr. Sentongo at Marlborough House.
June 29		Report signed and delivered to the Secretariat.

4. The entirely understandable pressure for an early report meant that we were not able to analyse conditions as thoroughly as we would have liked. Moreover, papers on particular sectors either by outside agencies or Ugandan officials are rare and, if available, usually well out of date. The rapid deterioration of the administration during the Amin regime brought also a decline in the quantity of statistics and their quality. The expansion of magendo (or 'black' and 'grey' markets) meant that increasing fractions of production and distribution, imports and exports, escaped the networks of statistical collection. Moreover, many key documents are missing, destroyed or dispersed in the war and the subsequent looting. Telephone communication is still poor, even between departments in Kampala and others in Entebbe, and road journeys often difficult. In the central ministries there is a scarcity of information about the

current situation - the state of equipment, the size of inventories - whether estates, factories, offices, hospitals, trains, etc. are actually functioning.

5. Nevertheless, despite these difficulties, we were able to make a very wide range of contacts, and to collect a good deal of data ourselves. Government ministers, officials and private citizens, though themselves usually greatly overloaded, put a great deal of time at our disposal, showing by their action the importance they attached to the Mission. Dr. Kisamba Mugerwa of the Ministry of Finance was appointed our Liaison Officer and helped us make these contacts. An Inter-ministerial Technical Co-ordination Committee had been set up by the Government before our arrival, chaired by the Permanent Secretary, Ministry of Finance, Professor P. S. Mulema, and consisting of senior officials from almost every ministry. This Committee has six sub-committees, composed as follows:

<u>Sub-committee</u>	<u>Chairman</u>	<u>Ministries and other bodies</u>
1. General Economic	Mr. G.W. Lutaya-Kanya	Finance, Planning and Economic Development; Foreign Affairs; Commerce and Industry; Statistics Department; Planning Division; Bank of Uganda; East African Development Bank.
2. Infrastructure	Mr. J. Bushara	Land, Works, and Local Government; Regional Administration; Natural Resources; Posts and Telecommunications; Electricity Board; Railways Corporation; Uganda Tourist Development Corporation; Uganda Airlines.
3. Agriculture	Mr. G. W. Gowa ¹	Cooperatives and Marketing; Agriculture; Animal Resources; Planning Division; Uganda Tea Authority; Uganda Development Bank; National Tobacco Corporation; Uganda Tea Growers Corporation; Uganda Central Cooperative Union; East African Development Bank.
4. Industries	Mr. A. Katumba	Commerce and Industry; Labour; Wood Industries Corporation; National Textiles Board; East African Development Bank; Uganda Development Corporation; Uganda Commercial Bank; Uganda Cooperative Bank.
5. Building Materials	Dr. A. Lubega	National Reconstruction and Rehabilitation; Forestry Department; Cement Corporation; Steel Corporation; East African Development Bank.
6. Manpower Public Services	Mr. S. L. Serwanja	Public Service; Planning Division; Education; Management Training and Advisory Centre; Makerere University; Industrial Training; Labour, Finance, Planning and Economic Development; Commerce and Industry.

¹ Mr. Gowa organised two safaris for us.

6. We met the whole Committee on our first morning and the sub-committees within the next couple of days. We were thus provided with early and thorough briefing and were each able to make appointments at once with our counterparts. Rarely has a group of foreign advisers been able to get off to a faster start. We continued to meet these sub-committees from time to time during our stay, and the report incorporates much material provided by their members, including papers prepared specially for our joint enterprise - often handwritten because of shortage of typewriters. We were asked to work jointly with officials on a number of current policy issues, especially in the field of finance, which brought us directly into contact with day-to-day problems.

7. We were able to visit 20 out of 23 local districts altogether, and the following centres, apart from Kampala and Entebbe:

Bushenyi, Fort Portal, Gulu, Hoima, Jinja, Kabale, Kasese, Katwe, Kilembe, Lira, Mbarara, Mbale, Masaka, Masindi, Soroti and Tororo.

In the rural regions and districts, as well as in the capital, we had many valuable interviews with officials and others, and received much written material.

8. We were naturally unable to cover the whole economy between us. However, we were fortunate to be able to obtain assessments of the position in particular sectors from experts based locally - Dr. Samuel Kigundu, Dean of the Faculty of Technology, Makerere University; Dr. V. K. Kyaruzi, Regional Secretary, Commonwealth Regional Health Secretariat, Arusha; and Mr. Stanley Joseph, CFTC Industrial Expert on Technical Assistance, the last named working with us throughout our visit.

9. Useful information was also provided by groups which were working on aspects of rehabilitation, sponsored by UNDP, UNESCO, the European Economic Community, the British Ministry of Overseas Development and the Crown Agents.

10. We also obtained very willing and considerable support from the East African Development Bank through the courtesy of the Regional Manager, Mr. F. Tibeita. The Bank provided us not only with secretarial staff and offices but also with the results of their own research. Mr. Twinomusinguzi, Director of Research, and his Research Manager, Mr. Manda, put the services of the Division at our disposal. Special mention must be made of Mr. Mike Byarugaba, who acted as our Administrative Officer for the final three weeks. We also received professional help from the following research staff at the Bank: Mr. Lawrence Gitta, Mr. Swahib Mkwawa, Mr. Ayen Omara and Mr. Wanale Wamala.

11. The Commonwealth Secretariat continued this support when we were in the field. Miss Ruckia Hamisi was assigned as Secretary to the Team, but she is an economist and the term 'Secretary' was used in a substantive rather than administrative sense; she took a very full part in the Team's work. The administration was at first in the hands of Miss Carolyn McAskie who arrived shortly before the team as a whole. Her energetic work and sound judgment did much to help the team get off to such a good start, and she continued as Administrative Officer until relieved by Mr. Byarugaba. Miss Anne Mittelholzer came out and joined the Team early in June doing hard and valiant work, which continued in London, to see the report through its various drafts.

12. There were altogether seven secretaries, apart from Miss Mittelholzer:

Miss Monica Majara)	
Mrs. Maureen Lugalambi)	from the East African Development Bank.
Mrs. Connie Otaala)	
Miss Judith Luninze)	
Miss Margaret Okello)	from the Faculty of Agriculture, Makerere,
Miss Theresa Wunyi)	(by courtesy of the Dean, Professor J. S.
Miss Gertrude Kigonya)	Mugerwa).

We owe a special debt to Miss Majara who worked tirelessly as the organiser of this pool, which ran through almost two complete drafts in 12 days (sometimes more than two), averaging in fact more than 30,000 words a day (equivalent in length to a novella). The dedication of the group, in coming to work on the last day, some on foot, through demonstrating crowds and gunfire, was admirable.

13. We were conveyed around Kampala and, in some cases, the rest of Uganda, by drivers from Blacklines Tours who worked for long hours: Mr. Samuel Kiwanuka, Mr. Esau Bugengaria, Mr. David Musisi, Mr. Ephraim Kagumire, Mr. Cassius Kanizio and Mr. Joseph Jooga.

14. The whole report and papers were edited and retyped expeditiously at the Commonwealth Secretariat, under the supervision of Miss McAskie during the week starting Saturday June 23. The editing was carried out by Mrs. Zoe Mars of the Institute of Development Studies. Typing and reproduction were organised by Miss Lorna McLaren and carried out by her and the following team:

Miss Shireen Gunasekera
Miss Julie Meadows
Miss Charlene Lee Ling
Mrs. Sheree Herdman
Miss Sheila Runghen
Mr. M. Jasimuddin

15. This report is supported by papers on the various sectors, prepared by individual members of the Team and consultants. Whilst efforts have been made to avoid inconsistencies through the use of an initial common framework and each paper being discussed both with the Team Leader and with the Team as a whole, it should be understood that each is put forward on the responsibility of whoever has signed it.

16. In the interest of comprehensive coverage an attempt was made to include almost all sectors, but there were some which could only be studied rather superficially. As has been pointed out above, time was short and data were scarce, so it will be appreciated that our conclusions should generally be considered preliminary and subject to cross-checking of facts and deeper analysis.

17. Details of equipment for projects in some sectors, and of personnel needs, where not included in annexes to sector papers, are lodged with the Secretariat.

CHAPTER 1

THE TASK OF REHABILITATION

1. The Government of the National Liberation Movement inherited a country in ruins.
2. As a statement of physical damage this would be an exaggeration. It is the economy that has been ruined. There are shops closed or with practically nothing to sell queues workshops deserted or short of equipment cropland abandoned potholes and corrugations in the roads factories without materials or machinery. Magendo is widespread. If one wanted to describe the current scene to somebody who had not been there in recent weeks, an obvious parallel would be Europe and South East Asia in mid-1945.
3. Social conditions are of the same order. Hospitals are short of drugs. Cholera has spread in the south west. Some areas are on the verge of famine, and undernourishment is more common than formerly. School children have few texts or exercise books and nothing to write with. In the three main cities, especially Kampala, water and sewerage systems are functioning badly and virtually raw effluent flows into Lake Victoria - not far from the intake to the capital's water works, which cannot filter or chlorinate properly.
4. Much of Uganda has indeed been badly damaged by the fighting. The sector papers in Volume II each give details. The battle front moved across the country from the Tanzanian border, halting temporarily near Mbarara, to the frontier with Sudan. Several towns were almost completely devastated by artillery or aerial bombardment (or a combination of the two). In others, like Kampala, a proportion of houses, factories and public buildings was gutted or partially destroyed.
5. After the fighting came looting; at first in selective reprisal against the supporters of the former regime, then spreading like an epidemic. The public hospitals lost almost all their beds. Not only were food, clothes and furniture appropriated from shops and houses, and tools from workshops; any objects which were immovable or valueless to the looters, such as laboratory equipment, were smashed. Thousands of cars and lorries were stolen.

Before the War

6. But war damage is not the main problem. If it were - if on the eve of the war Uganda had had an efficient administration and a strong economy - then the task of rehabilitation, though considerable, would not be daunting. Exports would purchase essential imports. The economy would be functioning more or less normally within a few months.
7. In 1978, however, the condition of Uganda was by no means healthy. Years of arbitrary rule had demoralised the country (which helps to explain the mass looting). During the military regime, success had depended not on hard work or thrift, but on acquiring the right contacts and seizing the opportunity for magendo. Many who refused orders were killed or forced to flee. A number of individuals did in fact maintain their standards, but at considerable sacrifice, if not risk.
8. Under the military regime, recruitment and promotion to senior positions was determined far too often by personal favour rather than by professional standards. The financial controls necessary to any system of administration decayed. In his report of 1976-77, the Auditor General stated:

- Thus for the fifth year running it has not been possible to publish Chapter 1 of the Public Accounts, nor to compute the Out-turn of Revenue and Expenditure, the Combined Budget Results and Public Debt or to extract the Surplus and Deficit, the General Revenue and Capital Accounts.

9. Improper practices were common, not merely in government, but throughout the large public sector. To give just one example, all the reports - for 1973, 1974, 1975, 1976 and 1977 - of the auditors of the accounts of the Coffee Marketing Board (coffee being the main source of the country's foreign exchange) carried the following statement:

- No quantity reconciliations during the year were prepared by the Board, as a result of which we have been unable to satisfy ourselves that all coffee purchased by the Board has been accounted for.

It was not only the economy that was in ruins in 1978; so was the administrative structure (and this indeed is a large part of the explanation of the economic disaster).

10. Institutional change was sweeping and swift. In 1970, the government before the military regime had taken majority participation (60 - 40%) in a score of large companies (banks, insurance companies, etc.) under the so-called Nakivubo Pronouncements. After a fleeting reduction in participation, policy was reversed again and in 1972, the economic war was declared, starting a process of nationalisation of many more expatriate firms. In the same year the Asians were expelled (including those with Ugandan citizenship), numerous small properties passed to nominees of the regime and some large ones were nationalised.

11. Within three years, in fact, the number of parastatal bodies increased by nearly 100, and in 1975 more foreign businesses were expropriated. It was very difficult to digest such a rapid expansion of the public sector, especially when it was accompanied by the transfer of many small commercial businesses to new management. Uganda lacked the hundreds of managers, engineers, accountants and other professional personnel to replace those who were forced out. Moreover, no objectives or guidelines were provided for the new managers, except for periodic prohibitions on price increases. Nearly all became chronic loss-makers, and banks were compelled to extend loans, thus accumulating heavy portfolios of bad debt. Trade debts also accumulated, so the parastatal bodies aggravated each other's cash flow problems.

12. There were similar intermittent and clumsy attempts to freeze prices in agriculture. Producer prices for coffee only trebled whilst the price of food items in the Kampala low-income cost-of-living index rose more than 11 times (and would have risen much more if magendo prices had been adequately covered). The recorded exports of coffee fell from 175,000 tonnes in 1970 to 80,000 in 1978, mainly because of increased smuggling, but also due to coffee being left unattended. Some tea was abandoned and also sugarcane. Cotton, once a mainstay, virtually collapsed. Production figures are as follows in 000 tonnes):-

	<u>1970/1</u>	<u>1978/9</u>
Tea	18	11
Sugar	144	12
Cotton	76	11

13. External developments made the foreign exchange position still worse, especially the rising price of oil and other imports. The proceeds of the coffee boom of 1975-6 were squandered. The Government's foreign debts grew rapidly and in 1976 it began to default on their service. Many suppliers refused further orders. After the break-up of the East African system in 1977, Kenya Railways would transport only on prepayment. As goods piled up in Mombasa, storage and demurrage charges accumulated. Foreign capital could not be obtained except from the so-called 'friendly' countries. On the black market the Ugandan shilling fell eventually to less than one tenth of the official exchange rate.

14. By 1978, shortages - of food and other consumer goods, of vehicles and spare parts, of raw materials and equipment - had been worsening for several years. The fleet of heavy lorries, which had amounted to 7,000 in 1970, had declined by about 50%.

Manufacturing output was also falling - constituting both cause and effect of further shortages; electricity consumption by industry declined from 277 m. units in 1970 to 161 m. in 1978, despite unchanged charges. The output of textile fabrics, which had been 55 m. linear metres in 1970, fell to 30 m. in 1978; cement from 191,000 tonnes to 73,000 (and then halted for lack of imported gypsum); soap from 12,000 tonnes to 1,000; matches from 49,000 cartons to 8,000; blister copper from 17,000 tonnes to 2,000 (also ceasing subsequently).

15. Yet the Bank of Uganda was compelled to advance money to the Government as the President desired and the supply of money in circulation mounted rapidly, reaching Shs. 7,100 m. in 1978 as against Shs. 1,200 m. seven years earlier. Inflation accelerated, and controls on retail prices merely facilitated magendo. Thus a kg. of sugar which had cost Shs.1.50 in 1970, had a controlled price of Shs.15 last December, but actually fetched almost Shs.100.

16. The one price control which was partially effective was on the price of labour. The minimum wage rose by only 54% in eight years. Not only did wages decline sharply, in real terms, in the formal sector; they often (because of the liquidity problems of employers) fell seriously in arrears. Workers left formal types of employment for black market jobs (to pay magendo one must earn magendo). Others went to live on family small-holdings, an option many Ugandans were fortunate to have open to them.

17. There was not much attraction in a monthly pay packet of Shs. 240 (the basic minimum) which would buy scarcely 10 loaves of bread or two litres of cooking oil, especially when often that amount could be made in one hour by a single transaction on the black market. White-collar workers indulged in extensive 'moonlighting' - and offices were often empty.

18. Uganda had in fact by 1978 become a classic example of the economic retribution that falls on a country when its government attempts self-reliance but lacks a rational system of decision-making and has destroyed the administrative capacity to implement them.

19. The war simply provided the coup de grace to this already sinking magendo economy. Loss of records and office equipment brought additional disruption to administration; looting further depleted lorry fleets to less than 2,000; the breakdown in foreign trade reduced inventories to still lower levels. The whole industrial and commercial sector virtually, in fact, seized up and prices soared still faster in the first three months of 1979. The official exchange reserves when the UNLF took office were Shs. 153 m.¹, less than three weeks' imports (at the low levels of the past two years). Foreign loan services in default totalled over Shs. 1,000 m.

The Task of Rehabilitation

20. A formidable problem would have faced the new Government even if the military regime had been overthrown peaceably. The symptoms of economic and social breakdown outlined in paragraphs 2 and 3 had already been visible for some time.

21. Indeed, the problem is not to make good the war damage of the past few months by repair and replacement, as many people - especially outside Uganda, believe. It is to reverse the cumulative process of administrative, social and economic deterioration - mutually interactive - which had been in train for many years.

1

The official rate of exchange is approximately Shs. 15 to the £ sterling or Shs. 7.00 to the US\$, so this amounted to about £10m. or \$20m.

22. A number of conclusions flow from this. In the first place, the task of rehabilitation is not only, or even fundamentally, a financial one. The really important need is to reform the institutions and policies the Government has inherited. More fundamentally still, successful rehabilitation depends on political leadership to bridge the rifts in Ugandan society - some long-standing, some of more recent origin - and to create law order and political stability.

23. Secondly, rehabilitation should be seen as a sequential process. Just as administrative, social and economic collapse fed each other, so each step forward will facilitate others, provided the timing is right. First the 'bottlenecks' need to be identified, then ways of relieving them determined, so as to set in motion a cumulative improvement all round - administrative, social and economic. Restored confidence and the correction of price distortions will lay the basis for long overdue investments. Frustrations and sacrifices are inevitable, but these can be borne for a time by those with a vivid recollection of the far greater hardships of the past, especially if they are made aware of the administrative and financial mess left by the military regime, and if they sense the rhythms of recovery. Precisely because output, employment and incomes are at such low levels, the cumulative recovery could be quick and spectacular.

24. The third consequence of this definition of the problem is that 1970, not 1978, provides the benchmark for rehabilitation policies; the sector papers compare the recent past with the position in 1970. The choice of 1970 does not imply that Uganda was by any means an ideal or fully developed society in that year, in political or economic terms (if it had been, the events of 1971 could hardly have occurred). The country still suffered from internal divisions and external dependence in ways that lie outside the scope of our report. No endorsement of the status quo ante is implied. Moreover, this benchmark cannot be used crudely. In the meantime, the population has increased by more than a third. There have also been irreversible changes in institutions, infrastructures, techniques. Besides, the very extent of the demolition of the previous socio-economic structure creates new opportunities in all these respects.

25. Yet such a benchmark is useful: it provides broad targets that are comprehensible and in some cases quantifiable; they are also attainable in not too long a period. A general recovery of economic activity and institutional structures to approximately what they were in the last year before the military takeover would represent an immense improvement on the present situation, very welcome to most Ugandans. Whatever the structural weaknesses of Uganda before the military dictatorship, conventional procedures were followed in government, including proper accounting; there were inventories in the economy and goods were available for consumers to buy, magendo was the exception not the norm.

26. Moreover, the economy was still expanding in 1970. Rehabilitation is best viewed not as a static concept - as a climbing back to certain levels - but as the regaining of a long-term momentum which has been lost, indeed reversed.

27. Finally, the role of foreign aid is subsidiary. Capital is certainly needed and there is a natural tendency to believe - even sometimes on the part of donors - that a vast inflow of money, accompanied by technical experts, would in itself solve a country's problems. This is not so, especially for Uganda in 1979. Aid of the wrong type at the wrong time could easily aggravate matters: for example, big investment projects this year that used scarce resources could cause a renewed acceleration of inflation. Certainly foreign aid is an indispensable element, first in relief and then in rehabilitation, in ways we shall point out, in both Volumes I and II. In appropriate form and appropriately timed, it could greatly ease and speed the recovery. But it should be seen as just one of the facets of the total cumulative process. However appropriate, even however well-timed, aid will not achieve much - nor will much probably be offered - unless effective policies are adopted and implemented by the Government of Uganda.

LAUNCHING REHABILITATION : AN INTEGRATED PROGRAMME FOR THE NEXT SIX MONTHSThe Starting Point

28. When the Team arrived in Kampala, the UNLF had been in power for just one month, and faced immense difficulties. Most of the ministers and permanent secretaries had not had much previous experience of government. Moreover, the only administrative practices with which many of their officials, especially the younger ones, were familiar were the peculiar ones of the previous regime. When the new ministers moved into their offices in April, they found these completely ransacked, with few chairs left, or desks or typewriters or pens or even sheets of paper. Some had to spend time and energy on personal problems - relatives missing, homes looted, cars stolen. The telephone, rail and road systems were disrupted; indeed a large part of the country was still in enemy hands. It was hard to know what was happening, or even had been happening; many records had been destroyed and statistical series were either not available or of little value.

29. We were impressed with the progress in recreating an administrative machine in such a short time and such difficult circumstances. Lines of responsibility had been established; papers circulated before meetings; ministers were briefed. The machine had begun to work.

30. There had also been some progress on the economic front. Goods were trickling in. The petrol shortage had eased. A few lorries and cars had been driven over from Kenya. Although the black market value of the Uganda shilling was only approximately one-sixth of the official rate, this was about twice what it had been. Food prices had dropped back from their peaks; the price of sugar, for example, fell from nearly Shs. 100 a kg. in December to Shs.40 in May.

31. But these economic improvements were somewhat superficial. The economy was - and is - still gummed up. Most factories are only working, if at all, to a fraction of their capacity. Many farmers have not been able to plant cash crops such as cotton and tobacco; others are unable to market the crop they have picked. Workshops remain idle. Shops are still empty. The road back to 1970 is still a long one. Decisions on economic policy are urgently needed, as well as action to raise resources overseas.

32. The chief requirement for getting the economy working again is a big flow of imports. If items like cooking oils, salt and a few other necessities were imported in quantity, prices would decline, wages would buy more and so would farm incomes - work would be worthwhile.

33. Imported materials and tools such as hoes are needed for people to work with. Spare parts would enable machinery and vehicles to be brought back into working order. A little foreign exchange could provide a big yield in increased production. As local output rose there would be another source of supply for consumer markets, further reducing prices and limiting opportunities for magendo. The cumulative upswing would have begun. It urgently needs starting and we consider in this chapter a plan for doing so this year.

34. We estimate the need for imports in the period July - December as follows:

	<u>Shs.m.</u>
consumer goods	780
Petroleum and products ^a	480
Inputs for agriculture	440
Inputs for manufacturing and other industries ^b	790
Transport equipment and spare parts	880
Water and Sewerage	70
Telecommunications	230
Housing	590
Social services and administration	540
Miscellaneous	170
	<u>4,970</u>

^a Includes an agreed phased repayment of arrears to the oil companies

^b Includes minerals, power and tourism.

We have scrutinised each category separately and come to the conclusion that this is about the minimum that would permit the rehabilitation to be launched.

35. The estimates of consumer goods imports refer only to basic necessities (salt, sugar, soap, cooking oils and fats, clothing, sewing machines, skimmed and condensed milk, radios, batteries and pharmaceuticals). The per capita consumption of these goods attainable with imports at this level would be comparable to that of 1971,¹ with an allowance for the rebuilding of inventories, one of the necessary steps in eliminating the black markets.

36. Inventories of industrial materials are running low. Many factories will have to close down in a few weeks if they cannot get materials, including heavy industries such as those producing cement and hoes. Others (e.g. Tororo Steel) are closed already. (See section 3 in Paper 11 on the main industrial sectors). Spare parts are also widely needed if production is to rise towards its former level, thereby further easing the prevailing shortages of goods, saving imports, and supplying jobs to those Ugandans returning to the cities from the countryside and abroad. Without agricultural inputs, the recovery of the export sector, particularly in the first instance coffee, would be inhibited by low yields, inadequate processing capacity, insufficient bags, and the like. The imports of transport equipment are absolutely fundamental to the recovery programme; they would permit the crucial movements of coffee from farms to export markets, and of consumer goods and industrial inputs in the reverse direction (see below). They include 65,000 bicycles and 1,300 motorcycles.

37. There are pressing needs for new equipment and materials in passenger transport, water and sewerage, health, education, housing and other forms of infrastructure. These are detailed in the next chapter, not being integral parts of this initial push, but some of the most urgent requirements are included in the preceding list.

38. It would not be difficult to add to the priority import bill shown here. Allowance has been made only for necessities, especially of consumer goods.

Breaking Transportation 'Bottlenecks'

39. The difficulties in arranging the necessary flood of imports are twofold: transportation and foreign exchange. Transportation is always a special concern in a landlocked country, but, up to mid-June, it would hardly have needed emphasis because Kenya Railways was still insisting on pre-payment, not merely of rail freight but also of arrears of demurrage charges, amounting to Shs.25m. So the hold-up was basically an issue of foreign exchange. We gather that this has now been largely waived, a very helpful gesture.

40. Attention can now shift to the 'bottlenecks' in the movement of imported merchandise (See Paper 16). One is the change of locomotives at the border. An arrangement with the Kenya Railways should obviate the delays here; otherwise the flow of goods would be checked again soon after it started. It is not as if the two railways had different gauges. A more rational arrangement would be for the heavy locomotives based in Kenya to come right through into Uganda (as a few do already), particularly in view of a length of steep gradient on the Ugandan side.

41. The next question is whether the transport system inside Uganda could handle a normal inflow. There seem no basic problems about the equipment of the railways - it was difficult to loot locomotives and wagons. Moreover, considerable new rolling stock has recently arrived or is on its way. Provided the oldest diesels can be overhauled (a high priority), the motor power and wagon capacity would be comparable to that of 1970 and adequate for the period of rehabilitation. However, technical assistance is badly needed in signalling, telecommunications and both mechanical and electrical engineering.

42. A more serious problem is the capacity of the system of road transport to move imports, especially into the rural areas, where they are badly needed (See Paper 18).

¹ A more convenient year than 1970 for this purpose.

The roads themselves are in a parlous state, as a result of years of neglect. Some, the East-West main road in particular, have had to suffer the long-distance heavy lorries running through to Burundi, Rwanda and North-East Zaire. A number were further damaged by the recent movements of the tanks and other military vehicles and, in some cases, by shelling.

43. A big increase in their use would hasten the deterioration of the roads, perhaps critically. Pot-holes urgently need filling, shoulders reinstating, drains clearing; throughout the country, murrum roads need regrading. Nevertheless, we are convinced from our journeys over most of the country, that though considerable technical assistance is needed at both professional and technical levels, more imports could be brought to the rural areas - even if with difficulty and at high cost. (For details of road conditions and proposals, see Paper 17).

44. So we come to vehicles. There are approximately 1,600 heavy lorries in Uganda at present, a fifth of the fleet in 1970 (or half the number on the road last December). This is not enough; even at the present low level of trade, it is necessary to hire lorries (mainly from Kenya) at heavy foreign-exchange costs. We gather that altogether 150 Tata lorries are in either Kampala or Mombasa ready for use. In addition, another 250 are awaiting in India for shipment when the remaining payments (about Shs.100m) are made, and could arrive in Mombasa by early August.

45. Even a total fleet of 2,200, however, many of them new, would not be adequate for the rehabilitation needs of the next few months, especially if the road system is not quickly repaired. Since there is also a shortage of service facilities, a large proportion of the lorries will frequently need expensive spare parts. Many may well have to be scrapped abnormally early. Big new orders will need to be put in hand very soon, if this is not to remain a 'bottleneck'.

Export Earnings

46. So the real 'bottleneck' is foreign exchange (See Paper 25). In normal conditions (viz. as they were in 1970), one would expect Uganda quickly to be able to resume exporting its chief cash crops and copper, and to reactivate its tourism on a scale sufficient to meet a large proportion of the bill for imports of both normal supplies and those needed for rehabilitation, especially transport equipment.

47. Transport 'bottlenecks' are an obstacle to exporting as they are to importing. Space is especially important for bulky crops. At present, though Kenya Railways have offered to consider five trains a week, only two are actually running. And the state of the roads and the shortage of vehicles reduces the export potential too, with the added problem that a lack of bicycles and pickups is cutting the flow of coffee from the farms to the societies and factories.

48. Very few copper exports can be expected in the remainder of this year because, even though the rail line to Kilembe is apparently working again, both the mine and the smelter will be held up for lack of materials and spare parts, indeed proper machinery. There will be considerable delays in reviving tourist traffic on the scale of 1970 - if not for reasons of confidence, then simply because it will take time to restore the looted hotels.

49. This takes us to the cash crops where the main problem is producer prices (See Papers 4 and 25). In the case of cotton, the earliest impact that a further price increase is likely to have would be on the crop to be planted in 1980, which will not be processed and ready for sale until half-way through 1981. Some reduction in border smuggling to Kenya could follow from an improvement in the supply of consumer goods, but the extra official foreign exchange receipts would be small. Improved prices for tea could lead to a positive response within the six month period, even from the abandoned plots, but again the absolute increase in foreign exchange earnings cannot be great.

50. The producer price for coffee is the real issue, even in the very short run. This is not because of any expectation that it would evoke a quick response in terms of supplies. The reason is the risk of the resumption of smuggling - whether organised on a large scale by a new in-group or through a resumption of the small scale head-load

and bicycle-load border crossings of 1976/77 - unless prices in Uganda are brought closer to those prevailing across the international frontiers with Kenya (especially), Tanzania, Rwanda and Zaire.

51. The effects of price changes are difficult to estimate precisely, but we believe that for the export sector to be rehabilitated the following increases are needed immediately:

	(Shs. per kg.)	
	<u>Current</u>	<u>Proposed</u>
Coffee (robusta dried cherry) ^a	3.50	7.00
Cotton (clean seed)	5.00	6.00
Tea (green leaf)	1.25	2.00

^a With corresponding increases in arabica parchment.

52. Assuming that coffee growers will receive increased incentives, and that the coffee transport and processing problems internal to Uganda are resolved over the course of the next few months, it should be possible gradually to expand coffee sales to nearly normal levels by the end of the year. But it will take time to get existing stocks out of the country and to rebuild the capacity to move and process more. There is typically a further delay between shipment and the receipt of foreign exchange. Despite the recent fortunate increase in world coffee prices, foreign exchange earnings from coffee will still be limited during the vital period of the next six months. Our working assumption is that the average price will be in the range of Shs.25,000-30,000 per tonne. So one can only expect exports of coffee to yield Shs.1,500-1,800m in the next six months, and total exports to be no more than Shs.1,620-1,920m.

53. Moreover, there are other foreign exchange liabilities. As we pointed out in paragraph 19, the UNLF inherited unpaid bills and debt obligations to the tune of at least Shs.1,000m, nearly half owed to foreign governments (See Paper 27).¹ Few of these have been paid. In addition, servicing the public debt would normally cost about Shs.150m in the coming six months, of which one-quarter would be in respect of loans made in the later years of the military regime by the so-called 'friendly' countries (which between them also account for over Shs.70m of the defaulted debt service).

54. It would be difficult to delay payment on commercial arrears (clearing and forwarding, foreign airlines, etc.). However, the Uganda Government would be in a strong position to insist that some government debts should be cancelled and that it should not be expected to pay off at once any of the inherited arrears. Particularly debts incurred in the closing years of the military regime made little contribution to the development of the country, indeed perhaps the contribution was negative, some being used in fact or in effect to enhance the power of dictatorship.

55. In the case of other creditor governments, the same objectives could be sought on the basis of different arguments. They all have an interest in helping set in motion an upward spiral of activity so that Uganda can take its place again as an economically viable member of the world's trading community. Uganda is a 'least developed' country and many creditors have announced policies of cancelling the debts of countries in this category; some have specifically done so for Uganda. A moratorium should be declared on the remainder, on the understanding that it would be a matter of temporary necessity.

56. It would, however, be unwise to default unilaterally on current servicing of debts, at least when these are to governments with which there are expectations of normal diplomatic and trade relations, or to companies from which further supplies will be needed. However, governments should be requested to forego such payments voluntarily.

¹ Arrears on oil are not included - an agreed programme of paying overdue and current bills has been negotiated; the figures are included in those given for petroleum products, in paragraph 34 above.

57. If these tactics are pursued for debt obligations past and present, it would be necessary to allow in this period, not Shs.1,100m. but say Shs.520m., going only to commercial creditors. In addition, payments on 'invisible' account (current costs of freight, airline charges, etc) would amount to about Shs.530m.

58. To summarise, the current account balance for these six months, if exports get moving and imports are resumed on the minimum but sufficient scale we have suggested, would be as follows:

(Shs. m.)			
Imports	4,970	Exports	1,620 - 1,920
Commercial debt arrears and servicing ^a	520	Invisibles ^b	40
Other invisibles	530	Current account receipts	1,660 - 1,960
		Deficit	4,360 - 4,060
	6,020		6,020

a Other than payments on debts to oil companies, included under imports

b Tourism, transit fees and electricity sales to Kenya

59. In brief, exports can only be expected at best to meet less than one-third of the essential goods and services compatible with the needs of rehabilitation. The bulk of imports will need to be financed in some other way. There are already firm offers of grants and loans from British commercial banks, the Government of India, the EEC and UNICEF totalling about Shs.550m. (apart from what has been received from the Government of Kenya, Tanzania and Britain, the IMF and Barclays Bank, totalling Shs.229m.), though some of these funds are tied to particular long-term development projects and cannot be used to finance the deficit shown above.

60. In addition, however, there are possibilities of further assistance from the IMF through its normal lending operations, its 'compensatory financing' facility and its Trust Fund, and Uganda could also draw down the remainder of its entitlements to Special Drawing Rights. On the face of it, the Government is also eligible for grants under the STABEX arrangements of the Lomé Convention (particularly if the provisions for 'special cases' are supplied). IMF and STABEX support could total as much as another Shs.300m. if exceptional efforts are made to obtain this support in the next few months.

61. Another possible source worth considering in the present extremity is forward sale of part of coffee exports, once they are flowing out again, provided of course this seems justified by market trends.

62. Let us take the total usable to meet the deficit from all sources in the three previous paragraphs as Shs.1,000m. That leaves at least Shs.3,000m. still to be financed. Possible sources include private direct investment, trade credits, bank loans, further assistance from foreign governments and the IMF. To support its case for inflows of any of these types the Government can point not only to the economic and political importance of the country's rehabilitation but also to its commitment to a mixed economy; and to the basic strength of its economy, especially the further 100,000 tonnes or more of coffee which could well be sold during the first half of 1980, generating foreign exchange earnings of at least another Shs.2,500m. Exports of tea and cotton should be starting again in quantity in 1981. The rehabilitation of copper and tourism should, in due course, be reflected in foreign exchange receipts. (The next chapter gives short-term projections for all of these). There are also excellent longer run prospects for cobalt (See Paper 12). Finally, the total indebtedness of the Government is in fact relatively low, despite the foreign borrowing of the military regime.

63. Not much private direct investment can be expected under present circumstances. Trade credits and bank loans are already being explored, with a British bank's assistance, and these explorations need pursuing vigorously. But these sources of money are of course expensive; if one relied wholly on them their servicing would constitute a heavy burden on the balance of payments, even in 1980. The more one borrows, after a certain point, the more expensive it becomes, and finance of this kind is not in fact likely to be available in large quantities. Let us allow very roughly Shs.1,000m. under these headings.

64. If Uganda is to achieve the essential level of imports and get started on rehabilitation, there is therefore no doubt about the need for official aid, not primarily project aid but temporary balance of payments support. The country's immediate needs greatly exceed its immediate capacity to finance them and it follows from the logic of the argument above that at least Shs.2,000m. is required in this form of support - more if many government creditors insist on prompt payment of arrears. In considering such matters, donors might reflect on the fact that Uganda was not receiving the usual amount of aid in the dying years of the military regime.

65. Even within this six month period there are problems of timing. In the first three months, the exports would be less than half the total for the half year, while import needs would be more than half. Moreover, it would be difficult to mobilise much of the IMF facilities in this period. It is now that special balance of payments support is necessary.

66. The failure of the new Government visibly to be achieving quick rehabilitation could generate disaffection. There is no time to be lost if Uganda is to avoid sliding back into the economic and political turmoil from which it has so recently emerged. This is a case where each pound or dollar or mark made available now might be worth several times what it would be if offered in a few months' time.

Administrative Problems of the First Phase

67. A number of special administrative problems will arise for the Ugandan Government out of the programme outlined above (See, particularly, Paper 29). In the first place, proper arrangements need to be made for foreign exchange control which must give due weight to import licensing policy. The proposals for balance of payments support would make even more important the choice of proper mechanisms for the type of aid programme proposed - the donors would doubtless require some special guarantees against wastage, e.g. the appointment of a joint donor-recipient committee.

68. It is important that the foreign exchange for consumer goods in particular, as well as for industrial materials destined for private contractors and some parastatal bodies, should not simply be made available at the official exchange rate. This is what the military regime did (when it had any foreign exchange) under the pretence that the goods concerned would in due course be sold at controlled prices. The effect was magendo and the enrichment of the few.

69. It would be the same today, and very largely the same people would gain. The dangers of corruption spreading once more in the ministries would be serious. A foreign exchange license for Shs.100 is in fact also a gift voucher for Shs.500, and the temptation, especially for officials whose real salaries have shrunk, to 'allocate' it to a relative, or to require a 'kickback', would be immense. As one consequence, those supplying aid would be discouraged if they saw much of it passing into the hands of speculators.

70. Provided it were administratively feasible to ration essential consumer goods through the coming months, that would be a possible solution; but this is obviously not feasible. A devaluation would be an alternative solution, but to solve this problem it would have to be greater than is necessary for other purposes: the black market really provides no clue to what an 'equilibrium rate' would be. Another way of dealing with the problem would be for the Government to auction the foreign exchange entitlements, trying to ensure that competition really reigned (e.g. by holding some auctions outside Kampala) and take for itself what would otherwise leak out in magendo. A further option would be for the Government to levy taxes roughly equivalent to estimated magendo profits.

71. These last two alternatives would of course involve abolishing retail price control and open the Government to the charge that it was itself responsible for higher prices. Still there is little reason to expect that any of the procedures suggested above would actually increase prices - or only for a very short period. On the contrary, our programme would make possible a growing flood of imports - and generate the confidence that they would continue to grow - inducing a declining trend in prices from their present absurd levels. Therefore few retail purchasers would consider themselves any worse off. We presume that the Government has room to manoeuvre to start pulling down the economic facade of the Amin regime. The removal of price controls, especially those that have no practical effect, is a vital early step.

72. There would be other problems to solve. It would not be enough merely to make imports available, because many businesses, private and public, would not be able to buy them. In the first place, the banking system would need to resume its traditional role as a body financing private imports, if necessary with encouragement from the Bank of Uganda (See Paper 26).

73. Secondly, the financial state of many parastatals is serious. It is tempting to conclude that the only solution is either to sell these quickly to whoever would buy them or close them down. We shall argue later that a body should be set up in the near future to review the parastatals and make recommendations about their future (See Paper 9). However, this is also something not to be done in a rush. A generally disorderly denationalisation could cause as big a dislocation as the disorderly nationalisation of 1972. It would be particularly dangerous in the months immediately ahead when a growing output is urgently needed. Many of the properties would moreover fetch very low prices in the present state of the economy. Paradoxically, whilst reducing the public sector would help eliminate magendo, the process of doing so could provide the most striking example of profiteering.

74. There still remains the basic problem of starting up industrial operations again, which is primarily a matter of finance. An obvious solution would be a moratorium (which cooperatives also need) to relieve indebtedness and enable this sector to order imports. However, it should only apply to debts to the Government and to banks, because in many cases a moratorium on all the debts of one parastatal would aggravate the financial problems of others. One of the first functions of the body proposed (paragraph 73) should be to study the balance sheets and suggest how to unravel the complex liquidity problems of this whole group. Moreover, even a limited moratorium reinforces the need for proper supervision of management by ensuring that effective boards are set up.

75. A number of interrelated components of the first stage of rehabilitation have now been mentioned - supply of imports, rail transportation, road fleets, export crops, foreign credits, corporate liquidity. Some way needs to be found of monitoring this stage so that inconsistency does not arise between different departmental policies, crucial 'bottlenecks' are identified as soon as they occur, and action is organised to deal with them. We suggest an inter-departmental committee meeting weekly, chaired by the Secretary to the Treasury.

76. But such a committee needs an operational arm - a government task force with sufficient authority and executive powers to tackle the problems of transportation, logistics and related activities to ensure that essential exports and imports flow expeditiously and without interruption. The task force would not necessarily consist only of public servants; it could include specialists in shipping, forwarding, cargo handling, warehousing and customs operations.

Fiscal Implications of the First Phase

77. The programme would also affect government finance. It implies reducing the export tax on coffee, and raising the subsidies on cotton and tea. To the extent that the intended effect, increased output, is achieved, the consequence would be a large increase in the subsidy bill for tea. (Output of cotton is too low for this to make much fiscal difference this year). In the case of coffee, the reduced government take per bag would be partially offset by the increasing number of bags passing through official channels. In any case, the possible increase in the world price might raise revenue substantially - though if that happens, further increases in the buying prices might be needed to avoid too large a contrast with what could be obtained for coffee in Kenya.

78. Essentially, what is involved is higher rural incomes at a time when large general increases in consumption cannot be afforded, so there need to be offsetting sacrifices elsewhere. To put the same point in fiscal terms, the loss of revenue caused by the adjustment of producer prices, needs to be offset by higher government income from some other source.

79. There are basically two ways of doing this - raising indirect taxes or devaluing the shilling (See Paper 25). They should be seen as two ways of achieving the same objective, whether this is put in revenue or 'real' terms. Devaluation would raise revenue by increasing the yield of the tax on coffee (and it would also reduce expenditure on subsidising tea and cotton). Both of them would cut into magendo profits, to the extent that the resultant import price increases were not 'passed on'.

80. We realise that this is essentially a political question. There are psychological overtones to the word 'devaluation', especially in view of its well-remembered political consequences in Ghana and elsewhere in Africa, and there would be strong opposition from the interests that would suffer. But devaluation would be the more effective. It would automatically raise returns from all exports in local currency, including some not reached by price policy, such as tourism and manufactures. Similarly, it would raise the cost of all foreign exchange outlays, and increase the profitability of import substitutes, such as sugar and tobacco. It would need much less administration, and one of the greatest needs is to relieve an overloaded bureaucracy.

81. It is in any case not necessary to make a straight choice. If taxes are raised, any devaluation need be by that much less.

82. Fiscal policy in this period faces a very difficult dilemma. If it is too restrictive, it will block the recovery; if too expansionary, it will fuel inflation and perpetuate magendo, which will also impede rehabilitation.

83. The major requirement is to bring an end to budget deficits and illegal recourse to 'ways and means' financing (which already far exceeds its statutory limits) in order to demonstrate that that whole shabby period has ended. This means a very limited budget in the first place, including only what expenditure can be covered by taxation (allowing for the effects of a higher buying price for coffee) thus leaving out the bulk of rehabilitation spending. This can be afforded as and when foreign aid is provided.

84. The grants and loans indicated above (together with the moratorium) would enable goods to enter markets without a corresponding increase in purchasing power. In fact, such financial flows could be taken into the revenue side of the Government's accounts and permit an extension of expenditure. So could the profit from the scheme of re-selling consumer goods mentioned above (whether taxes or auctions are the chosen instrument). These items cannot of course be entered in the Budget which is now due, because they are speculative. So we recommend a Supplementary Budget, also balanced, in two or three months' time when the scale and nature of aid is clear (For recommendations on these budgets, see Paper 27).

THE TOTAL PROGRAMME OF PRIORITIES

Sectoral Priorities

85. In Chapter 2 we proposed an integrated package of policies and aid to break the 'bottlenecks' in transportation and trade, reduce the opportunities for magendo, and get the economy moving upwards again. In this chapter we look at a wider range of needs, some of them also urgent though not strictly part of the integrated programme for the next six months.

86. So far we have discussed transportation of goods, but reconstitution of passenger road services is also essential (see Paper 18). This sector too has suffered from years of neglect. The fleet of buses is only a small fraction of what it was in 1970. People have to wait for hours, sometimes days, to make long journeys. Many end up paying fares 10 or 20 times the statutory ones, in order to stand all the way in an open lorry, jolting over the roads described above (yet another striking example of magendo). The reason for attaching priority to the rehabilitation of these services is not just to relieve discomfort. The basic philosophy of our report is a rapid restructuring of the economy, which involves people moving out of magendo activities into those which are socially productive, and that in turn often involves movement to another area. With passenger services in their present state the necessary large scale redistribution of labour would be very difficult. The buses evidently also act as supplementary carriers of goods. A team of foreign consultants should be invited very soon to assess the technical capacity of both Uganda Transport and People's Transport, and make proposals for the reorganisation of these services, including further technical assistance.

87. Communication needs are also acute (see Paper 20). The telephone system has virtually collapsed for lack of maintenance followed by some war damage. Even before the war, engineers lacked the tools and equipment needed just to carry out first-aid repairs. Considerable length of cable will be needed to get the Kampala exchange working properly, and to re-establish the main trunk circuits. In view of the heavy official traffic between Entebbe and Kampala, a high priority is needed for this circuit and a microwave link is proposed.

88. In both broadcast radio and television, the story is once more of out-of-date equipment and neglected maintenance. The priority for broadcasting derives first from the Government's need to communicate to people the aims of rehabilitation, their role in achieving it and what progress is being made. Secondly, it can contribute to school education, especially in view of the shortage of teachers in science and mathematics. The coverage of radio is many times as great as that of TV, so it deserves a much higher priority: indeed if (as our consultant suggests) the plant for TV broadcasting is in such bad shape that the options are either expensive re-equipment or closing the service down, there can be little question that the latter alternative is preferable. Even in the case of radio there would be a heavy bill for restoring a proper service, including outside broadcasting facilities. Provision for batteries has been made in the list of essential consumer goods imports, so the radio programmes may be widely received, and provision for radio receivers is made in the educational sector paper.

89. Air navigational aids have been functioning so badly at Entebbe that communications between the control tower and pilots are often interrupted, which risks serious accidents and must jeopardise ICAO recognition of its suitability as an international airport. ICAO expert help is badly needed. Some new equipment was delivered for a projected airport at Arua in 1973 and 1974, but this was never installed because the airport never became operational: it has in fact been lying in a warehouse since then and a survey of its condition and suitability for Entebbe would presumably be high on the agenda of any rehabilitation programme, but imported equipment is badly needed anyway. A restoration of meteorological services is also a matter of urgency, if only because they are essential for air traffic. The country's observatories need re-equipping and an elemental need is a line between the one at Entebbe and the airport there.

90. If urban water supplies fail to get attention immediately the result will not only be serious in social terms but also a setback to rehabilitation. The most urgent need is in Kampala itself (see Paper 24). The supply from Gaba only meets about half

the city's needs and is thus irregular. It has not kept pace with population increase and there are serious arrears of maintenance. Coarse meshes and micro filters do not work, nor do half the gravity sand filters or the chlorine injection system. The authorities advise that the domestic supply should not be drunk without being boiled. The dangers of epidemics and the costs of purifying water, a kettle at a time, are obvious. The situation in other urban areas is as bad. In many areas it was not good even in 1970, as shown in studies commissioned by ADB and WHO, and the story since then is similar - declining pumping capacity, injectors not operating. The dangers are also similar, if slightly less urgent.

91. A very closely related question is sewerage. The Kampala plant, which was inspected, is virtually non-operational, and the same is said to be the case at Entebbe and Jinja. Due to total neglect, pumps and other equipment, which were functioning satisfactorily in 1970, are not in use. Virtually raw effluent flows via the Nakivubo Channel to Lake Victoria, only three miles from the intake to the Kampala City water supply at Gaba.

92. The health of the population is precarious. Apart from water borne diseases, there are signs of increasing malnutrition, especially in areas where farming has been disrupted by warfare. Yet the public hospitals are in a very bad state. They lost most of their medical staffs in the mid 1970s and their furniture and equipment in the recent looting. Some relief projects have been mounted by WHO and other agencies, but there is a pressing need for technical assistance - details in Paper 22. For example, only a single anaesthetist is in post at Mulago, the country's main hospital.

93. The University of Makerere, in 1970 one of the finest in Africa, has suffered growing staff shortages, lack of books and teaching materials, and neglect of construction needs, despite a continuous increase in the number of students. At present about half the 617 academic posts are vacant, an even higher fraction in key faculties such as Agriculture and most of the Sciences. There are prospects of filling many vacancies with Ugandans returning from exile, but we propose in addition a large scale programme of support by sister universities abroad, coordinated by the Inter-University Council, to help the university back onto its feet. Many building projects have been standing for years uncompleted, and toilet and other facilities in the overcrowded student hostels have deteriorated to levels which are unacceptable. Aid is also needed to make good library deficiencies and to repair and construct (a) accommodation for both staff and students (b) teaching facilities. Details can be found in Paper 21. The quick restoration of Makerere is central to meeting the many professional and administrative needs we found in every sector.

94. In school education, the story of the past eight years is of increasing enrolment but a growing problem of finding qualified and dedicated teachers, especially in science and mathematics, after the departure of the Asians, and apparently this is now showing up in a noticeably worse performance of Ugandan candidates for A Level examinations, in comparison with Kenyans. The external need is for large quantities of supplies and equipment to replace the losses arising mainly from looting, and also for radios (about 3,000) to enable the schools to benefit from educational radio programmes. Secondly, some expatriate manpower will be needed to supplement returning Ugandans and strengthen the science side of secondary school and technical institutes. The Ministry has detailed lists of its material needs and also of manpower requirements (though we would question the very heavy emphasis on strengthening A Level instruction, doubtless in response to recent examination results).

95. There are three distinct needs in housing:

- (i) A serious general problem already existed in 1978, because little building had been carried out by the military regime, despite the fast increase in population. The Minister puts the need for dwellings at 160,000. Moreover, a number of towns, e.g. Mbarara and Masaka, have been largely destroyed, and the population will rise suddenly with the return of refugees (estimated very roughly at a quarter of a million).
- (ii) Officials in the public sector have, since colonial days, come to expect to live in subsidised public housing. Government policy might take advantage of the present situation and encourage officials, by raising salaries or paying housing allowances, to buy or rent

accommodation in the private sector.

- (iii) A third category of housing will be needed by the technical assistance experts proposed in our report, including those who would teach at the University.

We have made only a cursory survey of this sector and have not attempted to assess the capacity of the construction industry. This is an area requiring a comprehensive technical survey, carried out rapidly. One possibility which would quickly supplement its resources would be pre-fabrication (which could, to a limited extent, make use of the local board factory). Then aid donors could take on (e.g.) complete destroyed towns, and provide pre-fabricated units in quantities. (See Paper 23).

96. In order to maintain the upward momentum, the sectors mentioned in the Chapter 2 programme will need help over a much wider area in 1980 and 1981. In agriculture there is a great range of needs. Increases in prices for producers have been recommended in Chapter 2. Agricultural prices will need to be adjusted to ensure that the production of export crops, and their marketing through official channels continues to be attractive. Cooperatives need to be made viable and more efficient, and this will require that steps be taken to relieve them of their present heavy debt burden. Agricultural extension will need to be revitalised, requiring the supply not only of physical resources (e.g. demonstration and spraying equipment), but also better supervision of field staff. Farmers lack many basic tools, hoes and pruning knives etc: these must be made available, and with them various chemical inputs, fertilisers and herbicides. Animal health needs to be improved and this requires the provision of drugs and vaccines and the rehabilitation of the nation's cattle dips. Improved varieties of cereals and vegetables need to be developed and a system is required to give early warning of the development of regional food deficits. If farmers are to be encouraged to use purchased inputs they should have much better access to credit, and in a few cases the price of inputs might be subsidised. (See Papers 2-7).

97. In manufacturing, the needs for working capital and physical inputs described above will still apply. Some plants required major re-equipment (e.g. Ugma Engineering and Tororo Industrial Chemicals and Fertilisers). (See Paper 11). Organisational problems touched on already in Chapter 2 will become increasingly important as the industrial recovery gathers momentum. There are three options for the industrial sector's large state-owned units - to stay in public hands, to be passed to Uganda nationals or to be returned to foreign control. All of these have their own disadvantages and advantages, the weight of which vary from industry to industry. Paper 8 suggest setting up a review body to propose criteria for different cases.

98. Power is one sector which fortunately does not impede rehabilitation. The Owen Falls hydro-electric station was maintained by its technical staff in full working order, and it escaped war damage. There is, for the present, plenty of spare capacity. However, as rehabilitation gets under way, the surplus will start to dwindle, and could disappear by about 1983. As Paper 13 points out, because of the long lead time in constructing new hydro-electric stations, this needs detailed planning on the basis of technical evaluations already made. Moreover, adjustments in tariff are long overdue, especially in the long-term bulk contract with Kenya, which urgently needs renegotiation: tariffs as cheap as those charged in Uganda encourage wasteful use of electricity (including a bias towards labour-saving machinery) and also mean foregoing foreign exchange earnings (from Kenya).

99. Tourism is an area which could recover some of its foreign exchange potential quite quickly. (It once earned more than either tea or coffee). Most of the furniture in the hotels has been looted and a large proportion of the wild animals killed. The best tactic would seem to be the concentration of resources in getting a few hotels back into service for the coming season, with a long-term policy of restocking the game parks. (See Paper 14).

100. The needs of the roads will not end when the priority purchases and first-aid repairs listed in Chapter 2 are completed. A second stage will consist of a planned programme of resealing, and in some cases re-sheeting, the main roads, and surfacing some of the marram roads, to bring the capacity of the road system back to 1970 levels and beyond. There are considerable arrears of work, and rehabilitation will mean greatly increasing road use for many purposes (getting coffee and other crops off the farm,

supplying consumer goods to the rural areas, increasing mobility of labour). Purchase of lorries and railway rolling stock will still be necessary, and attention will have to turn soon to the restoration of Uganda's air services (see Paper 19).

A Phased Programme for Foreign Exchange

101. We estimate that the total cost of the projects to meet the various sectoral requirement would be of the order of Shs. 5,400m. in the year 1979/80 as a whole, of which Shs. 4,200m. would be foreign exchange costs. These are included (together with needs for current inputs) in the projected foreign exchange balance for 1979/80 in Table 3.1.

Table 3.1
Projected Foreign Exchange Balance - 1979/80 (Shs. m.)

Expenditure	Year	Receipts	
Essential consumer goods	1,170	<u>Current</u>	Coffee 4,000 - 4,800
Petroleum and products	960		Cotton 110
Transport equipment	1,320		Tea 160
Agricultural inputs	660		Others 20
Industrial inputs	1,180	TOTAL EXPORTS	4,290 - 5,090
Office & School supplies	360		
Water & Sewerage	110		
Health	270		Tourism 40
Education	180		Transit Traffic 30
Housing	890		Electricity (Kenya bulk supply) 10
Telecommunications	350		
Others	250	TOTAL INVISIBLES	80
Total Imports	7,700		
Total Invisibles	1,060		
TOTAL	8,760		
Debt servicing	560	Total current receipts	4,370 - 5,170
	9,320	Deficit	4,950 - 4,150
			9,320

102. Comparison of this with corresponding figures in Chapter 2 shows that some slowing down in importation is implied for the second half of the fiscal year. This may well turn out not to be the case - Chapter 2 lists needs to achieve a 'lift off' and allocates a high proportion of the year's foreign exchange outlays to the coming six months. Some of the deliveries and payments may well spill over into the New Year, and the projections for the year as a whole have, therefore, a somewhat firmer basis.

103. Similarly, the apparent slowing down of debt servicing simply reflects the assumption in Chapter 2 that some once-for-all payments need to be made soon on outstanding debts to commercial creditors.

104. On the other hand, earnings from coffee exports should increase steadily throughout the coming year, if the buying price is raised as necessary and the problems of transportation internally and across Kenya are overcome. The vehicle and road repair programmes are crucial, it is also necessary for the weekly number of trains to rise from two to five if the 40,000 or so tonnes of coffee in storage and nearly all the normal crop are to be lifted, without much recourse to lorries or air freight (which is possible when coffee prices are strong, but expensive). What a 'normal' crop is remains uncertain, but in the early 1970s - indeed as late as 1974/75 - 200,000 tonnes was expected, and recent output has seemingly not been very much less, if we assume that about 50,000 tonnes has been smuggled out and add this to recorded exports. So in spite of delays in the early months, we expect 160,000 tonnes to be sold legally in 1979/80. The export price is very hard to estimate, especially for early 1980; we have taken a range of Shs. 25,000 - 30,000 a tonne as before. So altogether, coffee exports in the second half-year could be 50% higher than in the first.

105. Although we cannot count on much from cotton or tea (or tourism), the deficit to be covered with foreign capital should, on these assumptions, not be much more than in the coming six months. This means Uganda might well almost balance its current account in the first half of 1980, thanks to coffee (and if most of the necessary imports are brought in before Christmas).

106. In other words, further balance of payments support would hardly be necessary on these assumptions. This is in any case only realistic. Much of the IMF facilities will already have been used up by the end of the year (though a new SDR allocation of Shs. 50m. will be available from 1 January). Big additional support by private banks could not be counted on. Some private direct investment would be possible, especially if the Government makes arrangements (such as the establishment of joint ventures) that encourage its re-entry, but perhaps not in very significant amounts.

107. The big change that could be envisaged for this part of the year is that project aid could flow in with increasing momentum. If a substantial part of the necessary capital outlay is financed by project aid, and especially if (as we recommend) a high proportion of the local cost is borne by donors, rehabilitation would not require any net loss of foreign exchange; it might even be possible to build up some foreign exchange reserves. This would depend primarily on the coffee price. If the main crop in Brazil turns out (as currently seems possible) to be subnormal, and the market is strong for most of the coming year, and if local costs are met by donors, it might be possible for part of the commercial bank loans at least, to be repaid.

108. For 1980/81, the import needs are not likely to be significantly different (at 1979/80) prices from the coming year. Some import substituting industries (especially sugar) should be able once more to look after local needs and there would be few commercial debt arrears to be paid off (though if any creditor government refused to write off debts in 1979, it might start insisting on a resumption of servicing before long).

109. The further one looks ahead, the more difficult it is to predict coffee prices, but export earnings might well fall back in 1980/81, if they decline. Much of the coffee inventory should have been sold (and cotton exports would still be very limited because of the low level of planting this year). A deficit on current account could well open up again.

110. However, if the flow of project aid is strong by then and provided again that the bulk of local costs are covered (which amounts to further limited balance of payments support), the deficit should not be unmanageable - assuming of course a reasonably high price for coffee.

111. Later there should be sharp increases in exports of the minor crops, as the suggested price policy starts to exert its influence, tourism should become a substantial earner again, and copper and cobalt exports could be considerable. Manufacturing industries should be able to look after a large fraction of local requirements - and in some cases to enter (or re-enter) export markets. The coffee price would still be important but not of such dominant significance.

112. We therefore see, in summary, four phases for the external contribution to the rehabilitation programme:

- (i) July-December, 1979 Big deficit, covered mainly by balance of payments support; moratorium on unpaid official debts which are not written off.
- (ii) January-June, 1980 Balanced current account (because of sales of the coffee inventory and decline in smuggling), enabling exchange to be built up and the balance or payments loans to be partly repaid, provided the price of coffee is moderately strong.
- (iii) July 1980 - June 1981 Possible current account deficit again.
- (iv) After June 1981 Expansion of both merchandise exports and tourism; prospective current account balance or surplus.

Administrative Problems

113. The realisation of the economic and social rehabilitation objectives we have envisaged depends very much upon the inputs of effective manpower (see Paper 30) and efficient administrative machinery. (See Papers 28 and 29). Both resources are sadly deficient in relation to Uganda's needs.

114. There is a critically short supply of skilled professional and technical manpower especially in the productive sectors. The public sector organisations assess their own needs in certain strategic occupations to be filled during the rehabilitation period as more than 1,500 as follows:¹

Occupational Group	1979/80	1980/81
Professional, technical	705	520
Managerial, administrative	150	200
TOTAL	855	720

¹. Some of these figures we have been unable to appraise critically, but they show the order of magnitude of Uganda's needs.

115. The second area of manpower need is training. A very rough estimate is that at least 3,000 people need training of some sort. A special effort is needed to strengthen the capacity of local institutions to absorb as many of these as possible. The following schedule is proposed in sequence:

- (i) strengthen all educational and training institutions by having their key vacancies filled both through internal recruitment and external assistance (obviously a master manpower need, to help ease other manpower shortages);
- (ii) provide materials and equipment in short-supply e.g. text books and reference materials;
- (iii) prepare crash re-training programmes for the staff in essential services;
- (iv) organise mass staff training and re-training, including fellowships offered by donor agencies.

116. To facilitate action on manpower needs, a major contribution would be the setting up of a National Manpower Council and constituent task forces, including one on training.

117. The key to administrative improvement as an essential implementation input is to strengthen the capability for planning, procurement, logistics and supply management, financial control and accounting, and management improvement within the Government. This calls for the establishment of an Administrative Reform Commission to review the administrative machinery of the entire Government and to propose measures for improvement. External experts may be needed to assist the Commission in the course of its work. (See Paper 29).

Financial Implications

118. In Chapter 2, we have already dealt with the need to present two balanced budgets for 1979/80, the second supplementary, including the prospective aid flows. After discussions with officials it seems that the total revenue will be about Shs. 5,455m. (taking account of changes we have proposed, such as higher coffee prices), in the year about to start. Of this, Shs. 1,955m. is earmarked for 'development' expenditure (mostly sales taxes specifically raised for this purpose). These should, we suggest, be taken to limit recurrent and capital expenditure until aid has been promised. There is clearly very little room for fiscal concessions: indeed without devaluation it will be almost impossible to avoid increases.

119. The financial position of the Government is precarious - especially in the short-term. The deficits on recurrent and capital accounts, accumulated over more than six years, and financed by Treasury bills and advances from the Central Bank, amount, at present, to over Shs. 7,000m. The Government ways and means advances alone were Shs. 5,272m. at the beginning of June, and will probably exceed Shs. 6,000m. by the end of the month. The Government should start to repay this. As a first step, we recommend a limited issue of Uganda Government stock (repayable in 5 or 10 years) within the next few months. Commercial banks can be expected to take up some of the five year stock.

120. Fundamental improvements in public accountability are also needed. Under the military regime, there were laws governing how public revenue and expenditure should be accounted for, and rules and regulations continued to apply to the management of public money and property. But violations were widespread. The trouble originated at the top. The President and ministers ignored the rules and required public officers to cooperate in the violations or lose their liberty often their lives.

121. The UNLF Government is advised to issue an immediate Presidential Order, making clear to everyone that a new era of proper financial administration has begun; that laws and regulations will be strictly observed henceforward; and that central Government accounts will be kept up to date. A new Deputy Secretary of the Treasury responsible for financial administration in all government departments should be appointed (see Paper 28)

122. The issue of the Presidential Order might, however, aggravate the financial problems of bodies such as cooperatives. It would need to be followed soon afterwards by the moratorium discussed in Chapter 2. Foreign aid to the cooperative movement would also be helpful in cushioning the shock.

External Support

123. The rehabilitation of Uganda will be impossible unless there is timely and effective support by many foreign governments. This support needs to be far more generous and flexible than is normally the case. Many governments and NGOs have already stepped in with relief aid, as have international organisations such as the UN family and the EEC. But what is needed now is help on a vastly greater scale.

124. We are not talking only of the traditional donor countries. A great responsibility lies on Uganda's neighbours, especially Kenya as the transit country for the bulk of foreign trade. The cooperation of the Government of Kenya is essential in eliminating 'bottlenecks' on the movement of goods by both road and rail, described in Chapter 2.

It could also help financially, e.g. by accepting the need to re-negotiate the long-term electricity supply contract drawn up in a period when energy prices were very different.

125. Together with Tanzania in particular, it has the opportunity to help decisively with supplies such as food, vehicles and spare parts to meet emergency needs as they arise, if need be temporarily accepting some diversion of their own orders, and with the restocking of the game parks. Both countries could help (if necessary on a short-term basis) with loans of medical staff, teachers, professional experts of all kinds, technicians and managers. The old paternalistic days have long passed when technical assistance meant just European experts working in Africa. Indeed, those with professional and technical skills brought up in the region have the advantage of being better able to apply these skills under East African conditions.

126. The Universities at Nairobi and Dar es Salaam which once drew heavily on Makerere could help it quickly and completely to re-establish itself not only by lending staff but also by making it easy for Ugandan exiles working in East Africa to return home, e.g. by releasing them from contractual obligations, or accepting deferment of loan repayments. It is not for those from abroad to make recommendations about regional institutions; these naturally raise deep issues of East African politics. We were struck however, by the objective need for regional cooperation in many areas - trade, transportation, specialised teaching and research. If institutions for such cooperation existed and worked - which is not to say that all the old common services should just be re-established - the tasks of rehabilitation would be much easier, as indeed would the long-term development of Uganda and its neighbours.

127. When it comes to financial help, however, one cannot expect Uganda's neighbours to carry the main burden. Substantial balance of payments support is needed to get supplies into the country in the months before much increased quantities of coffee can be sold and the other exports re-established. We estimate that apart from what can be obtained from the IMF and under STABEX, and from commercial sources, a loan of Shs.2,000m. (nearly £150m.) is needed to cover the next six months - really the next three months. This is the key to getting the economy moving again, breaking the black market and creating the economic conditions for political stability. This analysis points to the need for a small group of donor governments to be brought together on the initiative of either one of them or an international body, such as the Secretariat of the Commonwealth or the EEC, in order to discuss how to allocate this task among them. The situation cannot wait for the steps normally taken to establish credit-worthiness.

128. We have given reasons for expecting that the donor governments will not have to continue such support indefinitely. A single financial injection of this magnitude should suffice. Naturally, it would be best if such support were in the form of a grant. A second best would be an interest-free long-term, but - on certain assumptions, which we have specified - repayment might start within a year. One of these assumptions is far-sighted generosity in project aid.

129. In Paper 27, the total cost of the two year rehabilitation programme is estimated at Shs. 11,500m. (see Table 3.2). Of this, one-quarter could in principle be covered by the Government through its 'development budget' (basically earmarked sales taxes). But some of this may well be needed to help cover expenditure on the recurrent budget. Moreover, there needs to be some rebuilding of foreign exchange reserves. Therefore, the total project aid should be of the order of Shs. 10,000m. (say £650m.).

130. This has two implications. The first is that donors should meet local costs. These vary from sector to sector, but they average about 25% in the projects we were able to cost (see Annexes to Paper 27), i.e. about the maximum possible Uganda could conceivably cover from its own resources. If donors fail to finance local costs, the prospect of rebuilding reserves and repaying debts will be much dimmer, and projects will be delayed. Indeed, if many donors reject local costs, the Government of Uganda will have to forego many projects. Donor agencies should not deceive themselves: it would be kinder as well as less wasteful to say no to project applications at the outset than to enter negotiations which will later be broken off because of unsuccessful attempts to get Uganda to bear local costs.

Table 3.2
Rehabilitation Programme (Shs. m.)

	1979-80	1980-81	Total
Agriculture	824	765	1,589
Transport	748	793	1,541
Telecommunications	440	451	891
Mining, Engineering and Chemicals Industries	316	274	590
Other Industries and Tourism	638	403	1,041
Social Infrastructure	2,044	2,049	4,093
Administration and Finance	894	836	1,730
TOTAL	5,904	5,571	11,475

Source: Paper 27

131. Secondly, it is usual and understandable for donor agencies to require that projects put to them should be new ones, not already started, and that, in particular, contracts should not have already been signed for the supply of equipment. In present circumstances, however, Uganda needs to place orders much more quickly than can normally be arranged through agency procedures. Indeed, one of the objects of trade credits and early balance of payments support would be to enable them to do this. But if rehabilitation is to pick up momentum at a necessary speed, these resources should last only a few months. So donors need to be prepared to pick up some bills *ex post*. As with local cost finance, this is necessary if the programme is to be implemented.

132. In addition, of course, it is the donors outside the continent who possess the range of expertise and resources that would enable them - without great difficulty - to fill most of the technical assistance vacancies we have identified and to provide much of the training required. The voluntary agencies already working in this area could also provide reinforcement. Paragraph 114 indicates the rough magnitude of manpower needs in the public sector. The following schedule is believed feasible for local recruitment, leaving the remainder to be covered by a large but declining injection of technical assistance.

Occupational Group	Local		Technical Assistance	
	1979/80	1980/81	1979/80	1980/81
Professional, technical	243	251	462	269
Managerial, administrative	65	155	85	45
TOTAL	308	406	547	314

133. One way of mobilising project support would be through a Donors' Conference at an early date (though not quite as early or as small as the meeting suggested above to organise balance of payments support). Because of the complexity of the problem, this conference should be preceded by a less formal meeting at a technical level to explore the priority needs in conjunction with Ugandan officials, and possibly to allocate provisional sectors and/or geographical areas to particular agencies. In our sector papers we have tried to indicate what might be appropriate sources of aid for some types of project.

134. Agency Officials taking part in such discussions should do so in the realisation, which can only originate in their political leadership, that this is quite a unique situation - far worse than hurricane or earthquake damage. Indeed that they are being asked to cooperate with the Government of Uganda in overcoming a dangerous national crisis which is also an international responsibility. What is required to meet this unusual situation is unusual imagination, and willingness to provide appropriate forms of assistance even if they are unprecedented or bureaucratically inconvenient. Many political leaders today adopt the posture that their own economic problems are so great that they are in no position to help other countries. They should visit Uganda.

Recapitulation

135. It may be helpful if we recapitulate here what needs to be done, selecting from the earlier parts of this report and the sector papers, some of the main tasks, and arranging them according to how they fit into the process of rehabilitation.

136. The first stage is the next few weeks. Some things need to be done in a matter of days, because there are social, economic and political dangers in the present stagnation.

137. The first category here is taken from Chapter 2: it consists of steps which need to be taken now to break 'bottlenecks' and thus make other steps possible later:

- acquire as much as possible of the credit available to Uganda under IMF facilities and STABEX;
- create a section in the Ministry of Finance to coordinate aid applications from all ministries;
- approach donor agencies and commercial sources to obtain a total of Shs. 3,000m. (£200m.) untied balance of payments support;
- announce a moratorium on unpaid debts to foreign governments inherited from the military regime;
- set up a task force to administer the purchase, transportation, storage and marketing of essential supplies;
- as soon as some of the payments support has been secured, see that orders are placed for the following goods:
 - (i) salt, sugar, soap, cooking oils and fats, clothing, sewing machines, skimmed and condensed milk, radios, batteries, pharmaceuticals (suggested quantities have already been telexed to the Ministry of Finance);
 - (ii) spare parts and industrial inputs to enable the following factories (which have very low inventories) to keep running: Uganda Hoes, Steel Manufacturers of East Africa, Dunlop (EA), Uganda Jute Mills and Cement Industries;
 - (iii) hoes, ox-ploughs, fertilisers, sprays and spray pumps, pruning knives, gunny bags and drugs and vaccines for livestock;
 - (iv) machinery and equipment for repairing both sealed and murrām roads;
- In order to clear the way for these imports to arrive
 - (i) empower a senior official to investigate the delays, especially of road traffic, at the Kenya border;

- (ii) negotiate with Kenya Railways for their heavy locomotives to run through to Uganda;
- (iii) pay the outstanding balance on the Tata lorries awaiting shipment in Bombay and place further orders;
- (iv) establish a provisional priority road repair programme, and start to implement it;
- finalise the draft foreign exchange budget for the year 1979/80, with contingency provisions to allow for unexpected fluctuations in coffee prices and various levels of aid;
- set up foreign exchange and import controls with criteria reflecting rehabilitation priorities;
- in order to ensure that the majority of the essential carrier goods do not disappear into magendo trading:
 - (i) either put on taxes equivalent to black market profits, or auction import permits;
 - (ii) abolish price controls on some items, permit big price increases on others;
- To enable parastatals and cooperatives to buy the inputs they need:
 - (i) declare a partial moratorium on their debts;
 - (ii) approach a potential donor for short-term finance;
- To increase the inflow of foreign exchange earned:
 - (i) announce higher buying prices for coffee and tea (cotton could wait);
 - (ii) suspend the management of the Coffee Marketing Board, pending investigation;
 - (iii) create a new, streamlined, Uganda Tea Board.

138. There is a number of other things which need to be done in the same first phase, though not strictly part of the integrated package:

- prepare a Uganda Rehabilitation Programme;
- issue a Presidential Order that financial rules and regulations are henceforward to be observed;
- present a First Budget for 1979/80;
- order the cables and tools to enable the Kampala telephone exchange to be restored and a microwave unit for the Kampala-Entebbe line;
- order spare parts and equipment for radio broadcasting;
- order spare parts for the navigational aids at Entebbe airport, especially primary and secondary approach radar and technical manpower;
- ask the IUC to set up a Makerere Programme of Emergency Assistance by universities overseas;
- apply for urgently-needed medical staff for Mulago Hospital;
- order new strainers and pumping machinery for the water and sewerage systems of Kampala, Entebbe and Jinja (and chlorination plant for the water supply;

- set up a Manpower Board with instructions to supervise the manpower part of the Rehabilitation Programme, including urgent technical assistance needs and training requirements.
139. Slightly less urgently, but still within the next three months:
- arrange for a meeting of donor agencies to discuss cooperation in a Rehabilitation Programme, costing about Shs. 11,500m., of which aid projects would total about 8,500m. (say £560m.), and requiring about 850 technical assistance appointments, and also fellowships for training overseas;
 - order inputs and spare parts for operations currently closed down; e.g. Tororo Steel, and copper mining and smelting;
 - decide whether to establish a separate 'flight information region' for Uganda, or to continue paying for the FIR services at Nairobi, and order equipment accordingly;
 - order materials for restoring the telephone trunk lines Kampala - Kapale and Kampala - Mityana;
 - concentrate repairs and supplies on a few tourist hotels;
 - start an emergency housing programme, with special provision for those arriving on technical assistance;
 - start repairs to staff and student housing at Makerere and resume work on abandoned projects for teaching facilities;
 - apply for science teachers on technical assistance;
 - require all parastatals to report to the Ministry of Finance on their financial condition by (say) September 30;
 - require all recipients of government guarantees to report as well on the outstanding balances of guaranteed loans and overdrafts;
 - set up a body to review the parastatals and recommend on their future organisation;
 - issue, about in September, government stock with maturities of 5 and 10 years;
 - appoint a Government Statistician, if need be on technical assistance.
140. Before the end of the year:
- put forward a Supplementary Budget;
 - raise electricity tariffs for domestic consumers;
 - approach the Government of Kenya for a discussion of the prices and volumes covered by the long-term contract for bulk electricity supplies;
 - announce increased prices for raw cotton and tobacco leaf.
141. If this seems a daunting list, it simply reflects the serious state of affairs in all sectors of the Ugandan economy and administration.

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