

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.