PAPER 1

GENERAL ECONOMIC CONDITIONS

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Introduction

The conditions to be found in the various sectors of the Ugandan economy are described in considerable detail in the sector papers which follow. It may nevertheless be helpful to provide an overview of recent economic changes and the present state of the economy so that the individual sector analyses may be placed in perspective. No attempt will be made to recount here the details of the economic and political policies of the 1970s. It is assumed that the reader is sufficiently familiar with the Nakivubo Pronouncements, the 'economic war', the increasingly chaotic internal conditions created by a brutal and oppressive leadership, and the eventual liberation. Attention will be confined to the economic conditions which were their result. Part 1 considers some of the distributional and structural characteristics of the Uganda economy from which any analysis must begin. Part 2 describes events in the Uganda economy up to the end of the liberation war. In Part 3 the present state of the economy is described and the bare elements of a programme for its rehabilitation are presented.

Distribution, Poverty and the Structure of the Uganda Economy

2. Uganda's economy is essentially an agrarian one. Only about 7% of the population lives in towns of over 1,000 people. Virtually all its merchandise exports originate in the agricultural sector, as do substantial proportions of the inputs, food, and tax revenues upon which the towns, and the industries and service activities in them depend. Overall economic performance is therefore substantially a matter of agricultural performance. While import-substituting industrialisation has made a significant impact upon Uganda's imports, this has merely altered the composition of the import bill. Uganda is still dependent on imports for fuel, many industrial and agricultural imports, and most of its machinery and equipment; and these must still be paid for by agricultural exports.

3. While extremes of absolute poverty are avoided in Uganda in normal times, it would be a mistake to consider agriculture as an undifferentiated whole. There are important inter-regional differences in the availability of land and in crop mix; and there are important distinctions to be made between large and small-scale farmers (as well as between large and small-scale urban businesses). These elements of differentiation have implications for income distribution and thus for the political economy. They must be incorporated into any attempts to assess overall conditions or develop economic strategies at either the local or the national level.

4. In particular, one must consider progress and problems for:

- the people of the poorest and most vulnerable districts of the country;
- small-scale farmers and businesses, which are usually in any case deserving of priority attention on grounds of economic efficiency.

5. Poverty levels can be crudely proxied by measures of the carrying capacity of the land and by the extent of net out-migration, such as are shown in Table 1.1. Allowing for the skewed nature of the rights of land use, it can safely be assumed that in any area where population is approaching 70% of the maximum potential carrying capacity, a high proportion of new entrants will be facing problems of access to resources or employment. The larger element of high-density urban settlement in East and West Mengo, make them a special case. The other three areas listed at the top of Table 1.1 are presumably faced with problems of this sort. The presumption is increased for particular parts within these areas where pressure on land resources is even greater i.e. Bukedi, Kigezi, Teso and Bugisu Districts, and where net out-migration has been occurring.

6. The relative prosperity of different communities in the rural areas is also closely tied up in the short to medium term with the fortunes of individual products. A high price or accelerated development in coffee, for instance, will directly benefit only certain areas, and indirectly only the dependent urban areas, in any significant and visible manner.

Table 1.1

Indicators of Land and Resource Scarcity by District

District	(1) Estimated net migration to other districts 1959 to 1969 (minus means out-migration)	(2) Estimated 1981 population as % of maximum potential population on the land
	(000's)	(%)
Busoga	52	94
Bukedi	-20	
East Mengo	99	82
West Mengo	126	
Kigezi	-100	
Ankole	38	81
Masaka	42	
Teso		
Bugisu	-8	68
Sebei	2	
West Nile	-43	57
Madi	7	
Bunyoro	98	
Toro	74	41
Mubende	38	
Karamoja	9	37
Lango	-5	
Acholi	30	34

Source: 1. Republic of Uganda, *Report on the 1969 Population Census, Vol. IV. The Analytical Report*, Statistics Division 1976.

2. Calculated from FAO 1976; Table 1 and Annex V, Table 4.

Although differences in regional prosperity arising in this way have contributed significantly to political and social tensions in Uganda in the past, no systematic attempt has ever been made to design and operate a rational rural development strategy, including pricing policies and investment projects, which would both reduce the extent of these disparities and at the same time encourage the movement of resources into activities which have become socially and privately more profitable.

7. Data on relative roles and income distribution as between small and large-scale farms and businesses are hard to find in Uganda. Table 1.2 presents our estimates of the relevant shares in different divisions of the agricultural sector. Compared with neighbouring Kenya, the overall contribution of the large-scale sector to agricultural production has been much less significant. Clearly the major source of income and of economic progress in Uganda has been the small-scale farmers. We have been unable to put together equivalent data on small-scale urban acitvities. It is important to recognise the implicit bias in favour of large-scale industrial and service establishments that can arise from the fact that information on them can more easily be assembled.

8. In terms of relative priorities for development, the small-scale sector in general enjoys the advantages of the low cost of self-employed family labour, a long-attested responsiveness to strong economic incentives and in several cases a backlog of appropriate innovations in terms of technique or enterprise which are likely to be adopted on an increasing scale. Also the small-scale sector is both the residual area of gainful employment for that majority of new entrants to the labour force who fail to find employment in the formal wage-earning sector, and the repository of the majority of the lowest income groups in the economy. On grounds of both economic efficienty and social equity, the case for priority to be given to the small farm sector is extremely persuasive except in those limited cases where a feasible small-scale technology is not available or 'hybrid' modes of production (e.g. outgrower schemes centred on nucleus estates) offer the optimal solution. We have been unable adequately to assess the possible role of small and medium scale urban activities, but we are convinced that they deserve more attention than they have received.

Table 1.2

Approximate Shares by System of Output of Major Agricultural Sector Products: Uganda 1976 [1]

Products	Value in 1976 (Shs. m.)	Small Scale Systems Share (%)	Small Scale Systems Value (Shs. m.)	Large-Scale Systems Share (%)	Large-Scale Systems Value (Shs.m.)
Coffee	2510	95*	2384	5*	126
Cotton	200	100	200	-	-
Tea	89	40*	36	60*	53
Sugar & Jaggery	27*	55*	15	45	12
Tobacco	15*	100	15	-	-
Crops Sub-total	2841		2650		191
Grade Beef Cattle	250	-	-	100	250
Grade Dairy Cattle	105	25*	26	75*	79
Traditional Cattle					
a) Beef	900	90*	810	10*	90
b) Milk	595	90*	535	10*	60
Livestock Sub-total	1850		1371		479
GRAND TOTAL	4691	86	4021	14	670

Notes: 1. In 1976 there were abnormally low levels of production of cotton in the small-scale sector and sugar in the large-scale sector.

2. Methodology:
Coffee and Tea: Export values, 1976.
Cotton: Export value 1976 plus 10% for value of seed, cake and oil.
Tobacco: 5m. kgs. x Shs. 3/kg. delivered to factory.
Sugar: 40,000 tons x import parity price £300 per tonne.
Jaggery: 150 factories x 500 tonnes/plant p a x £200/tonne.
Grade Beef Cattle: 10,000 tonnes* (1) x Shs. 25*/kg. (2)
Traditional Cattle (beef): 60,000 tonnes* (1) x Shs. 15*/kg. (2).
Grade Dairy Cattle: 30m. litres (3) x 3/50/litre (2).
Traditional Cattle: 170m. litres (3) x 3/50/litre (2).
*Rough estimates

Sources:
(1) African Yearbook Statistical Survey, p. 1037.
(2) Action Programme, p. 57.
(3) Survey of Economic Conditions in 1971, p. 77.

9. Data scarcities make it very difficult to assess the overall distributional implications of recent events in the Ugandan economy. Analysis must therefore be based to an even greater extent than usual, upon fairly aggregative data together with qualitative assessments.

General Economic Conditions: 1970/79

10. Virtually all indicators of economic activity show a downward trend from the early 1970s onwards, with some acceleration downward after 1973. GDP figures are of dubious quality and do not extend beyond 1976/77. We have therefore relied instead upon such measures as the volume of major types of industrial production, electricity consumption, the volume of output of major primary products, and railway traffic (Tables 1.3 - 6).

Table 1.3

Output of Selected Manufactures: 1970, 1975, 1977-8

	Unit	1970	1975	1977-* 1978	1977-78 as % of 1970
Cotton and other fabrics	m. linear metres	54.6	39.1	30.3	55
Blankets	000s	1164	322	165	14
Socks & stockings	000 dozen	1246	261	290*	23
Soap	000 tonnes	12.9	3.6	1.2	9
Paper	000 tonnes	1603+	1805	1380	86
Cooking oil	000 tonnes	13.0	6.1	1.5	11
Paints	000 litres	1660	852	586*	35
Matches	000 cartons	49.3	31.4	8.1	16
Cement	000 tonnes	191	98	73	38
Superphosphates	000 tonnes	24.8	4.0	0	0
Corrugated iron sheets	000 tonnes	11.9	1.4	0.8	7
M.S. rounds squares etc.	000 tonnes	17.6	6.3	7.9*	45
Beer	m. litres	27.8	38.8	22.1*	79
Waragi	000 tonnes	563	859	420	75
Cigarettes	million	1536	1754	1867*	122

* Asterisked figures refer to 1977, all others are for 1978

+ 1972

Source: Industry - level discussions.

Table 1.4

Electricity Consumption, 1970, 1974, 1978
(millions of kwh)

	1970	1974	1978
Industrial Sector	277	243	161
TOTAL	415	398	333

Source: Uganda Electricity Board

Table 1.5

Production of Selected Primary Products, 1970, 1975, 1978
(000 tonnes)

	1970/71	1975/76	1978/79
Tobacco	5.0+	3.6	1.5
Tea	18.2	18.3	10.9
Sugar	144	24	12
Cotton	76.3	13.8**	11.1*
Coffee - robusta	159.3	123.1	75.0*
- arabica	16.2	14.0	5.0*
Blister Copper	17.0	8.2	2.3

* Estimated by relevant Marketing Board for 1978/79 season, and excluding output not sold through official channels.

** 1976/77 season (last actual figures).

\+ 1972

Source: Various agencies and Ministries of the Government of Uganda

Table 1.6

Uganda Railways Traffic Volumes 1971-78 (All Stations)

Year	Passengers (000s)	Goods Forwarded (000 tonnes)	Goods Received (000 tonnes)
1971	552	1,030	786*
1975	2,007	493	949
1978	866	130	287

* This number is reported in the surce as 1,786 thousands of tonnes

Source: Uganda Railways Corporation, Rehabilitation, Improvement and Development, 1979/81

11. Trade statistics which would ordinarily provide further indication of recent trends have unfortunately not been available since July 1977, at which time the East African trade statistics system broke down; work is now under way towards the provision of the relevant data through the Kenyan customs authorities in Mombasa. In the meantime, it is possible to work with volume and sales data for the major exports provided by the relevant marketing authorities (coffee, cotton, tea, copper, etc.); and import volume data for some key items, like petroleum products, provided by the relevant importing firms. Table 1.7 shows import composition in the last full year for which there are complete data. Table 1.8 shows export values in recent years and the overwhelming, and growing, dependence upon coffee.

Table 1.7

Ugandan Import Structure, by End-Use Category, 1976

		%
Food, drink and tobacco		6.7
Intermediate goods		20.1
Machinery and equipment		24.3
Consumer manufactures		19.8
Construction materials		3.7
Fuels		25.3
	TOTAL	100.0

Source: Office of Statistics

Table 1.8

Uganda Principal Exports, 1974-78
(Shs. million)

	1974	1975	1976	1977	1978
Coffee	1661	1434	2236	4103	2332
Cotton	272	202	194	132	148
Tea	110	121	103	210	64
Copper	121	70	59	n a	n a

Sources: Office of Statistics, Coffee Marketing Board,
Lint Marketing Board, Uganda Tea Authority.

Table 1.9

Selected Kampala Official and Free Market Prices, May 1979

	Official Shs.	Free Market Shs.
Salt (1 kilo)	2.60	20.00
Laundry soap (bar)	8.00	40.00
Maize meal (1 kilo)	7.50	17.50
Sugar (1 kilo)	15.00	40.00
Bread (½ kilo)	7.00	20.00

Source: Commonwealth Team

12. Inflation in domestic prices can be measured by the official price series although this index substantially understates its true dimensions because of its use of official prices, and other aspects of the methodology of its construction. We have attempted to gather more current free market price data for a few items on a casual basis; and these investigations confirm our impression that the official price series vastly understates the actual rate of price change, and that 'ruling' prices are typically quite different from the official ones (see Table 1.9). For comparative purposes we also record the recent price changes in neighbouring Kenya and Tanzania (Table 1.10). It is evident that recent Uganda price inflation has been at a substantially greater rate than in either Kenya or Tanzania. Prices soared particularly in the last months of the Amin government and during and immediately after the liberation war; since they have now returned roughly to the levels of the middle of 1978 we have not used available price data for this latest period.

13. Monetary survey data are apparently of good quality. Money supply and its components continued to rise rapidly in recent years despite the decline in the volume of economic acticivy. It rose twice as fast in Uganda as in Kenya and Tanzania, both of which were - unlike Uganda - experiencing economic growth.

14. Productive capacity in the various sectors of the monetary economy has been greatly reduced through the gradual depreciation of assets in consequence of inadequate maintenance, absence of spare parts, and deteriorating infrastructure. This depreciation has been spared. Productive potential at the small farm level seems, however, to

be relatively intact. Agricultural inputs have certainly been lacking. But food production for sale has increased in areas with access to urban markets in response to the altered incentive structure; coffee production potential remains high; cotton is an annual crop which, while severely cut back at present, would come bank with adequate incentives. Estate production capacity, being more capital intensive, has deteriorated considerably, more than smallholder agriculture through lack of, or inadequate, maintenance, and labour shortages at prevailing wage rates. Overall agricultural capacity has thus been reduced, primarily because of growing bottlenecks at the transport and processing stages, rather than at the production level. In the industrial sector (including mining), production of almost all products steadily fell to levels far below those previously attained. Industrial capacity was increasingly constrained in the short-run by depreciated plant and equipment and shortages of spare parts and key inputs.

Table 1.10

Consumer Price Indices, Kenya, Tanzania, Uganda, 1978
(1971=100)

Kenya, lower income group, Nairobi	242+
Tanzania, all families, urban areas	390*
Uganda, low-income Kampala	511**

+ Third quarter
* Average for 1978
** Fourth quarter

Source: International Financial Statistics, Office of Statistics.

Table 1.11

Growth in Money Supply, East Africa, 1971/78

	1971	1975	1978	March 1979
Uganda (Shs. m.)	1160	3252	7084	7808
Uganda (1971=100)	100	280	611	673
Kenya (1971=100)	100	175	356	n a
Tanzania (1971=100)	100	207	341	n a

Source: IMF, International Financial Statistics,
Bank of Uganda, Bank of Tanzania,
Control Bank of Kenya.

15. Formal sector wage rates have not begun to keep pace with the rate of inflation; the real minimum wage stood in 1978 at only 20% of the level in 1970 (see Table 1.2). This has, not surprisingly, turned labourers away from wage employment. Among those no longer attracted by these rates of pay are migrant workers, who used to come from Rwanda and Burundi to work on Ugandan estates. Uncontrolled wage rates in the informal sector are nowhere formally recorded, but they appear to have risen a little more to meet labour market requirements than did the official wages. It is hardly surprising that so many wage and salary earners increasingly resorted to other non-wage or informal sector activities in order to maintain their incomes. There is little doubt that there has been a significant reduction in real labour inputs per worker i.e., a

decline in labour productivity, in the formal sector in response to these reductions in real wages. Uganda appears to be a most unusual case in which the incentive system has increasingly favoured migration out of the formal sector. Overt urban unemployment resulting from large numbers of school leavers and others waiting and searching for attractive formal sector jobs has been relatively insignificant. Unemployment has instead taken the disguised form of low productivity activity in both the formal and informal sectors.

16. Official prices for various imported products and for foreign exchange itself, have been sufficiently below prevailing free market prices for 'rationing' to be required, and substantial premia have been earned by those with access to the officially priced goods. There have been very high returns, therefore, from positions of influence and from queueing as well as from smuggling. For many, magendo became a way of life. Controlled selling prices for output also imply losses for parastatal bodies (which subsidise those with access to their sales), and for many cooperative unions and processors whose input prices are also controlled.

Table 1.12

Real Returns from Urban Wage-Earning and Legal Cash Crop Sales

	1970/71	1975/76	1978
Cost of living index, Kampala low-income, (1970=100)	100	346*	785**
Minimum wage index,	100	140	154
- deflated by low-income price index	100	40	20
Official grower price index, robusta coffee, kiboko,	100	118	294
- deflated by low-income price index	100	34	37
Official grower price index, cotton	100	152	400
- deflated by low-income price index	100	44	51
Average realised export price index, tea,	100 (1972)	117	121
- deflated by low-income price index	100	34	15
Kampala low-income food price index	100	381*	1238
- deflated by low-income price index	100	110	158

* Average of 1975 and 1976 indices

** Average for the year

Source: Office of Statistics, Commonwealth Team figures

17. Producer prices for agricultural products have not kept pace with inflation either (see Table 1.12). The result has been reduced deliveries of virtually all the export crops for which prices are controlled. Implicit in these reduced deliveries are: altered crop-mix (towards food crops), failure to harvest, stockpiling, and illicit sales (for smuggling). There have been and continue to be substantial incentives for illicit sales and trading in agricultural export products.

18. There has thus been a steady decline in economic activity in the urban and monetary economy, even more pronounced if measured in per capita terms, and in legal,

formal sector activity. This has only been partially offset by the corresponding upsurge in food production, mainly in the rural areas, and in magendo activity. The Ugandan economy was clearly operating at levels further and further from its real productive potential. In the real sense it became increasingly distorted and underemployed.

19. These changes have produced a gradual 'sinking' of the organised, legal, and monetary sector in the overall economy. Official statistics bore less and less relation to the realities of economic life; fewer and fewer transactions were recorded. The Government could acquire less and less of the total product through conventional revenue-raising techniques, and was forced to rely increasingly upon monetary expansion for its needs. One might make a case that the economy's massive 'retreat into the informal sector' constituted a sensible private response to the oppressive government which controlled the formal one. But it has probably developed habits of accepted illegality, subterfuge and evasion which will be difficult for even the most honourable of governments to overcome.

20. Most severely hit by the overall decline in the Ugandan economy were those with the least capacity to protect themselves against it. Rural dwellers in the poorest parts of the country found themselves with fewer opportunities for employment elsewhere, and with cutbacks in such services as they might previously have enjoyed. Urban workers without influence or access to capital or land have also suffered as their real earnings declined. Those who had smuggling opportunities (because of their geographic placement), and those in positions of influence with respect to import licenses, foreign exchange allocations, and the allocations of controlled-price goods have fared relatively comfortably.

21. External pressures added to the difficulties of the Ugandan economy during much of the 1970s. The increases in oil prices and the breakup of the East African Community, with the attendant deterioration in relations with Kenya (on which Uganda is totally dependent for its access to world markets) were severe blows. On the other hand, the coffee prices boom of 1976/77 provided the Ugandan economy with a brief reprieve. The revenues accruing to the government because of the favourable coffee prices were totally mismanaged, and the decline of the economy continued.

22. By the end of March 1979, official Ugandan foreign exchange reserves totalled Shs. 154m., or about one month's worth of the value of 1971 inputs. Allowing for price changes, these reserves amounted in real terms to about 10 days' worth of imports at the 1971 volumes. At the same time arrears on external debt servicing and overdue payments on external invisible account had reached over Shs. 900m. - many times the value of reserves.

23. Financial mismagement will be described in another paper. But it is important to note here that governmental mismagement of its own affairs extended - through its directives and pressures - to that of parastatal financial and productive enterprises, which were forced or went of their own accord into activities for which there was no prospect of economic viability. The result has been a massive accumulation of debt arrears and bad debt in parastatal institutions and cooperatives unions.

24. The principal elements of the damage done to the economy during the war and immediately thereafter were:

- a quantum decline in all parts of the country in the availability of transport vehicles - for crop movement, goods distribution, administration, and other purposes - below even the inadequate levels of early 1979;

- a major disruption in the administrative machinery of government and non-government organisations, in consequence of the loss of office equipment, supplies, and records;

- loss of stocks, input supplies, maintenance facilities, and other physical forms of working capital in almost all monetary-sector economic and social institutions;

- severe devastation of several urban centres - Masaka, Mbarara, Lira, Gulu, Bombo, Masindi, Seroti.

25. Some portion of the stock, equipment and vehicle losses involved internal 'redistribution' rather than outright loss to the economy. It is possible to buy some looted items on informal sector markets to this day. The greater part of 1979 losses, however, would seem to be 'national losses' in the sense that goods were physically destroyed or damaged, or lost to former Ugandans now in exile or to non-nationals. Even those which were 'redistributive' in character have severely disrupted the normal functioning of the money economy.

The Present State of the Economy

26. The war damage and looting losses of 1979 have left the Ugandan monetary economy, already greatly weakened and distorted over the previous eight years, in a precarious state. As before, non-monetary activities are relatively lightly affected by the present crisis.

27. The structure of incentives which characterised the pre-war period is still in place - favouring smuggling and illegal activities at the expense of legitimate ones; and food production at the expense of cash crops. But the level of 'legitimate' monetary sector activity has now sunk to unprecedentedly low levels. Much of 'official' commerce and industry has come to a standstill. Some incomes are being maintained through increased reliance on domestic food production, continued private smuggling of coffee and other goods, and some pockets of continued industrial activity. The Government is maintaining itself through the use of its reserves in the IMF, the sale of accumulated coffee stocks and the use of limited emergency aid and credits from foreign governments and banks. It has also suspended payments on external debt account, use of emergency foreign aid and credits. The government administration is seeking quickly to re-establish control over economic management through the reconstruction of normal planning and budgetary procedures. Only when this has been done can the necessary policy decisions be taken and the reconstruction of the monetary economy begin.

28. The reduction in trader harassment and the resumption of the flow of pretroleum and other imports have brought urban price levels down considerably from the dizzy heights they had reached in late 1978 and early 1979. Imported items are still only available, however, at magendo prices.

29. In addition to the difficulties described above, the Ugandan economy is now faced with the following further problems:

- Many government, parastatal, cooperative and private sector employees have not been paid wages for several months, and employers have no liquidity with which to pay them.

- Commercial banks are not lending significant amounts to employers, whether private or public, unless they are clearly credit-worthy. The reintroduction of 'sound' financial management has reduced the flow of capital to enterprises on the margin (or below it) of financial viability (the number of which has increased in consequence of the damage described above); and the Bank of Uganda has imposed upper bounds upon the rate of withdrawal of bank deposits as well as stricter restrictions on advances.

- The majority of the cooperative unions (many of which were already in great difficulty because of control over their margins, declining throughput, and frequent mismanagement) have suffered further looting and other losses which render them unable to raise or, in some cases, to handle the usual crop finance.

- There have been virtually no deliveries of coffee to the Coffee Marketing Board, which has the liquidity to purchase it, in the past three months; at the same time, the movement of Marketing Board stocks to export markets has been constrained by obstruction on the Kenya border. There are still long border delays even for the high cost Kenya lorries which have been hired to move Ugandan coffee to Mombasa; and, while trains are now moving through Kenya to Mombasa, they do so at a rate of only two per week.

- The extreme shortage of foreign exchange still leaves unmet the needs of Ugandan industry for imported inputs and spare parts,with the result that they cannot resume reasonable levels of production. Stocks of inputs for some of the industries which are still operating have fallen so low that cessation of activities appears inevitable in the next few weeks.

- The same foreign exchange scarcity, together with the looting of stocks, and the unresolved question of the ownership of 'abandoned' (sometimes twice 'abandoned') shops, leave major shortages of wage-goods in the urban 'legal' sector, and consequent high prices on free markets and further incentive for smuggling and magendo trading.

30. A reconstruction programme must begin with a policy package containing at least the following elements:

(i) a major restructuring of incentives to reduce the attraction of magendo activity and restore returns to legitimate monetary sector activities, particularly the sale of cash crops through official channels;

(ii) a crash programme to provide key inputs (especially hoes); adequate transport, storage and processing facilities; and the necessary crop finance, for the agricultural export sector;

(iii) the provision of adequate liquidity to key public, parastatal and private employers, while increasing supervision and control over its use;

(iv) the re-establishment of firm governmental planning, management, and control in the national interest of: foreign exchange use; external debt, foreign contracts and aid; domestic and foreign procurement; the government budget; and the activities of parastatal bodies;

(v) the mobilisation of substantial programme assistance to finance the import of:

- vehicles, spares, and inputs for the cash crop programme;
- a substantial volume of essential consumer goods until domestic industry finds its feet again;
- inputs and spare parts for the industrial sector.