INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

UGANDA

Initiative for Heavily Indebted Poor Countries
Second Decision Point Document

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Boxes

Figures

Tables

Appendix

CURRENCY EQUIVALENTS

Currency Unit	=	Uganda shilling (U Sh)
US$1	=	U Sh 1,505 (As of December 31, 1999)

WEIGHTS AND MEASURES

Metric system

ABBREVIATIONS AND ACRONYMS

AfDB/F	African Development Bank/Fund
BADEA	Arab Bank for Economic Development in Africa
BOU	Bank of Uganda
CIRR	Commercial Interest Reference Rate
COMESA	Common Market for Eastern and Southern Africa
DPP	Department of Public Prosecutions
DSA	Debt Sustainability Analysis
EFMP II	Economic and Financial Management Project II
EIB/EDF	European Investment Bank/European Development Fund
ESAC	Education Sector Adjustment Credit
ESAF	Enhanced Structural Adjustment Facility
ESIP	Education Sector Investment Plan
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDDS	General Data Dissemination System
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IsDB	Islamic Development Bank
IHS	Integrated Household Survey
IGG	Inspector General of Government
IMF	International Monetary Fund
LGDP	Local Government Development Program
LTD	Large Taxpayer Department
MTBF	Medium-Term Budget Framework
NARO	National Agricultural Research Organization
NDF	Nordic Development Fund
NPART	Non-Performing Asset Recovery Trust
NPV	Net Present Value
NWSC	National Water and Sewerage Corporation
OPEC	Organization of Petroleum Exporting Countries
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PER	Public Expenditure Review
PFP	Policy Framework Paper
PMA	Plan for Modernization of Agriculture
PMU	Poverty Monitoring Unit
PPAs	Priority Program Areas

PSR	Poverty Status Report
SWAP	Sector-Wide Approach
TDMS	Teacher Development Monitoring System
UBS	Uganda Bureau of Statistics
UCBL	Uganda Commercial Bank Ltd.
UEB	Uganda Electricity Board
UPE	Universal Primary Education
UPPAP	Uganda Participatory Poverty Assessment Project
URC	Uganda Railways Corporation
WEO	World Economic Outlook
ZAROC	Zonal Agricultural Research and Outreach Centers

I. INTRODUCTION

1. Uganda reached its decision point under the original framework of the Heavily Indebted Poor Countries (HIPC) Initiative in April 1997, when the Executive Boards of the IMF and IDA decided that Uganda was eligible for assistance under the HIPC Initiative. In April 1998, the Executive Boards of IDA and the IMF determined that Uganda had met the conditions for reaching the completion point under the HIPC Initiative. They determined that the external debt sustainability target for the net present value (NPV) of the debt-to-exports ratio for Uganda was within the range specified at the decision point and that satisfactory assurances had been received regarding the assistance to be provided under the Initiative by Uganda's other creditors. Accordingly, Uganda was granted US$347 million of debt relief in NPV terms, bringing Uganda's end-June 1997 NPV of debt-to-exports ratio down to 196 percent. A total of US$45 million in debt service relief, in nominal terms, was provided in 1998/99. Executive Directors of the IMF concluded the midterm review of Uganda's second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) on August 26, 1999 and approved Uganda's request for a third annual arrangement under the Poverty Reduction and Growth Facility on December 10, 1999.

2. In September 1999, the Interim and Development Committees endorsed—subject to the availability of funding—the enhancements to the HIPC Initiative framework for countries pursuing sound policies and committed to reform. In this context, ministers expressed support for lowering the debt sustainability thresholds to improve prospects for a permanent exit from unsustainable debt as described in the paper on the Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative,[1] which also specified that countries that have already reached their decision point will be reassessed retroactively to benefit from the enhancements to the framework.

3. To facilitate the above-mentioned reassessment, the rest of the paper is organized as follows: Section II describes the characteristics of poverty in Uganda; Section III describes Uganda's poverty reduction strategy;[2] Section IV presents the debt sustainability analysis and the status of creditors' participation; Section V contains conclusions; and Section VI presents some issues for discussion.

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[1] IDA/SecM99-475 (7/26/99) and EBS/99/138 (7/23/99).

[2] Sections II and III, which were drafted before the PRSP Operational Issues Joint IMF/World Bank paper (SM/99/290, 12/10/99, and IDA R99-241, 12/12/99) was finalized, include the content of an interim PRSP which is why a separate interim PRSP from the government is not being circulated (see PRSP paper, p. 20, fn. 13).

II. Characteristics of Poverty

4. While Uganda is one of the poorest countries in the world, it has experienced a substantial reduction in the incidence of poverty[3] in recent years. The nationwide incidence of poverty fell from 56 percent in 1992/93 to 44 percent in 1996/97 (Table 1), owing primarily to strong economic growth, particularly in the cash crop sector. In fact, improvements in conditions of cash crop farmers and their families were responsible for over half of the reduction in poverty during this period, reflecting the substantial impact of coffee liberalization and rising world coffee prices. Recent improvements notwithstanding, the incidence of poverty remains high and widespread in Uganda. This is not surprising given the low level of income in the country (US$320 per capita in 1997/98, based on the World Bank Atlas method). Poverty in Uganda is predominantly a rural phenomenon, most intense outside the central region, and is most prevalent and intransigent among food crop farmers, a majority of whom are women. Significant disparities exist in the incidence of poverty between urban and rural areas and among regions, which reflect (inter alia) differences in levels of security (lowest in the north and parts of the west), geographic dispersion of agricultural production (cash crops being predominant in the central region and food crops in the north), access to markets (most constrained in the north), and type of economic activity.

5. While the incidence of poverty was much lower in 1996/97 than in 1992/93 for all income cohorts, consumption among the poorest 10 percent of the population fell during two intervening years (Table 2). Moreover, as shown in Table 1, inequalities among different areas intensified during the period. In 1992/93, the incidence of poverty in rural areas was twice that in urban areas; by 1996/97, it was three times as high. Similarly, the incidence of poverty in the central region (the richest) fell substantially more than in the poorest regions (the north and the east). Inequalities also increased between employment groups with the incidence of poverty among food crop producers exceeding that in the most well-off employment group by more than five times compared with 2.5 times in 1992/93.[4] Finally,

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[3]The information discussed in this section is drawn from the 1992/93 Integrated Household Survey (IHS) and four subsequent annual monitoring surveys, the results of which are presented in Simon Appleton et al., 1999, "Changes in Poverty and Inequality," *Assessing an African Success: Firms, Farms and Government in Uganda's Recovery*, ed. by Paul Collier and Ritva Reinikka (Washington: World Bank). The incidence of poverty refers to the proportion of the population consuming less than a minimum basket of food and nonfood requirements. The poverty line in Uganda was calculated to be U Sh 16,443 (about US$14) per adult equivalent per month in 1992/93 Uganda shillings. This indicator does not capture important dimensions of poverty, such as access to education, health services, clean water, civil liberties, freedom from discrimination, and people's ability to live long and healthy lives. These aspects of poverty are discussed below. This information has been supplemented by quantitative and qualitative data collected as part of the Uganda Participatory Poverty Assessment Project (UPPAP) (1998/99).

[4] Consumption-based indicators by employment grouping exist only for 1992/93 and 1995/96.

poverty in households with unemployed heads rose, indicating a deterioration in social support networks (public and private) for the unemployed.

Table 1. Uganda: Poverty and Economic Growth, 1992/93–1998/99

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
	(Percentage of population living below the poverty line)						
Total	55.5	52.2	50.1	48.5	44.0	...	...
Urban	28.2	20.6	22.3	19.5	16.3	...	...
Rural	59.4	56.7	54.0	53.0	48.2	...	...
Cash crop farmers	60.1	...	...	43.7	...	...	...
Food crop farmers	63.7	...	...	62.2	...	...	...
Northern	71.3	69.2	63.5	68.0	58.8		
Eastern	59.2	58.0	64.9	57.5	54.3		
Western	52.8	56.0	50.4	46.7	42.0		
Central	45.5	35.6	30.5	30.1	27.7		
	(Contribution to total poverty)						
Northern	22.2	20.8	18.3	21.5	22.1		
Eastern	29.7	29.5	36.9	36.5	35.2		
Western	23.0	28.2	25.4	24.1	23.8		
Central	25.1	21.5	19.4	17.8	18.9		
	(Real growth of GDP)						
Total	8.4	5.4	10.6	7.8	4.5	5.4	7.8
Agriculture	9.3	1.8	5.9	4.3	1.1	1.9	8.1
Cash crops	0.3	10.5	8.0	22.6	13.9	-2.8	14.3
Food crops	12.3	0.9	7.7	1.3	-2.0	1.6	9.6

Sources: World Bank and Uganda Bureau of Statistics.

Table 2. Uganda: Mean Consumption per Adult by Decile, 1992/93B1996/97 1/
(1989 Uganda shillings per month)

Deciles	1992/93	1993/94	1994/95	1995/96	1996/97
1	2,453	2,920	2,898	2,802	3,164
2	3,234	3,627	3,682	3,650	3,991
3	3,955	4,319	4,403	4,492	4,798
4	4,687	5,004	5,143	5,214	5,593
5	5,474	5,777	5,919	6,097	6,442
6	6,384	6,745	6,792	7,114	7,535
7	7,556	7,962	8,064	8,538	9,019
8	9,294	9,745	9,937	10,636	10,945
9	12,237	12,946	13,748	14,905	14,503

Source: Appleton, Emwanu, Kagugube, and Muwonge (1999).

1/ Fiscal year begins in July.

6. While there have been substantial improvements in some welfare indicators, progress has not been universal (Table 3). The most notable success has been in the area of primary education. The net primary school enrollment rate increased from 56 percent in 1995/96, just prior to the introduction of the Universal Primary Education (UPE) program to 94 percent in 1998/99. The primary school completion rate and ratio of girls to total pupils also increased, though more moderately than the enrollment rate. Improvements were also realized with regard to access to clean water, literacy rates, and the prevalence of stunting among small children. HIV/AIDS infection rates fell steadily in all urban antenatal clinics monitored between 1991 and 1997. The improvements in many indicators notwithstanding, most of them remain low and some critical ones have been deteriorating: nearly one-half of the population still lives in absolute poverty; immunization rates of children and pregnant women have fallen; the incidence of stunting among small children remains high; an estimated 10 percent of the population is infected with the HIV/AIDs virus, which has recently spread to the rural areas where it is expected to spread rapidly in the near term; and, most alarmingly (and related to HIV/AIDS), life expectancy at birth has declined from 47 years in the early 1990s to 42 years in 1998. A vigorous information campaign, however, has increased awareness (to an estimated 90 percent of Ugandans) of the causes of HIV/AIDS infection at much greater levels than those of other illnesses. Uganda ranks lower on the UNDP Human Development Index than any of its neighbors and has one of the shortest life expectancies in Africa.

7. Furthermore, some children do not remain in school despite the government's UPE program because of the high cost of supplies (such as uniforms, notebooks, and pencils) not paid by the government. There are also concerns over the quality of education, overcrowded classrooms, and absenteeism among school teachers. In the health sector, the recent sharp increase in expenditures has had little impact on key output indicators, as evidenced by the broad decline in selected immunization rates. Only one-half of the households surveyed said that they used available health facilities when they were ill, owing to corrupt or hostile staff, unaffordable user fees, long distances to health clinics, and lack of drugs. Furthermore, despite the increased outlays in the health sector, only about 34 percent of health centers' staff positions were filled in 1998/99.

8. To deepen and broaden its understanding of the multidimensional nature of poverty, the government completed the Uganda Participatory Poverty Assessment Project (UPPAP) in 1998/99 based on consultations with the poor regarding the nature of their poverty (Box 1). In addition to citing limited access to clean water, health facilities, and transport networks as important aspects of poverty, the study also cited the inability to hedge against risk, persistent insecurity, corruption, lack of access to information on agricultural prices, markets, and technology, and large family size as major barriers to the improvement of the condition of the poor (Box 2). Women in agriculture were found to be particularly vulnerable, with limited control over cash income, assets, or production choices. There is evidence that food security and consumption among women and children often decrease as progressively more of the household food production is marketed. Furthermore, persons who live in absolute poverty are extremely vulnerable to shocks arising from weather, insurgency, crime, death of

Table 3. Uganda: Social Output and Outcome Indicators, 1994/95–2014/15 1/

	1994/95	1995/96	1996/97	1997/98	1998/99 Prel. est.	1999/2000 Proj.	2000/01	2004/05 Target	2014/15	Sub-Saharan Africa 2/	2015 DAC targets
Currently targeted social output indicators											
Net primary education enrollment rate 3/	55	56	83	85	94	97	94	100	100	...	100
Primary school completion rate 4/	30	35	37	40	45	50	50	60	...	...	...
Gender ratio (primary school) 5/	45	46	47	47	48	49	50	50	...	...	50 9/
Access to clean water (rural) 6/	36	38	40	42	45	50	55	75	100	32	...
Selected social output indicators under review											
Immunization rates 7/											
Children 8/	47	50	55	...	...	...	...	60 10/			
Pregnant women: TT (tetanus)	76	72	58	48	38	...	...	...	...	...	
Selected social outcome indicators											
Under 5 mortality (per thousand live birth)	147	...	...	...	...	...	...	118 10/	...	147	one-third 11/
Percentage of population living in absolute poverty	50	49	44	...	...	...	...	...	10		half 11/

Sources: Ministry of Education; Ministry of Health; and Ministry of Natural Resources

1/ Fiscal year begins in July.
2/ 1997 or latest single year.
3/ Ratio in percent of net enrollment to cohort (i.e., enrollment within cohort limits). Data for 1996/97 are based on February 1997 data; Ministry of Education
4/ Ratio in percent of number of students completing P7 to number enrolled in P1 seven years earlier. Data for 1996/97 are based on February 1997 enrollment figures; from Ministry of Education
5/ Ratio in percent of girls to total pupils enrolled in primary school; data from Ministry of Education
6/ Ratio in percent of number of people served by protected sources of water to total population in rural areas; data from Ministry of Natural Resources, Directorate of Water Development
7/ Based on district submission to Ministry of Health.
8/ Immunization of six antigens of the Expanded Program if Immunization; ratio derived from coverage survey on infants aged 12 to 23 months
9/ By 2005.
10/ By 2002.
11/ Of the 1990 level at most.

family member, and other causes. The lack of adequate asset markets (real or financial) and transportation networks makes it very difficult or impossible to maintain consumption levels in the event of such shocks.

Box 1. Redefining Poverty in Uganda

Poverty analysis in Uganda is breaking new ground. Traditionally, poverty indicators of income, consumption, education levels, and health status are derived from household surveys. In Uganda, the government is developing a broader set of indicators to define poverty, which include previously unconsidered dimensions, such as risk, vulnerability, physical and social isolation, powerlessness, and insecurity. These new indicators have emerged from direct consultation with the poor, undertaken by the government in the 1998/99 (July–June) Uganda Poverty Participatory Assessment Project (UPPAP). This assessment revealed to policymakers that the poor have the capacity to analyze poverty and appraise government policy to a greater extent than had been previously acknowledged. In addition, the project enabled poor people to voice their realities and express their priorities, which often differed from those assumed by policymakers. To better diagnose the problem of poverty, the government combined the data from the 1992/93 Integrated Household Survey (IHS) and four annual monitoring surveys conducted since then with the UPPAP.

Box 2. Nature of Poverty in Uganda[1]

A sample of priorities, as expressed by poor communities in recent surveys,[1] are the following:

- Improving security—persistent insecurity leads to helplessness, powerlessness, and marginalization.
- Improving access to clean water—use of contaminated water has a negative impact on health and decreases women's productivity and children's education, owing to increased time spent collecting water.
- Eliminating corruption, which undermines effective service delivery.
- Overcoming lack of access to, and information on, markets; these problems can be exacerbated by existing economic inequalities.
- Improving inadequate road and transport systems.
- Addressing the lack of control over fertility, which leads to large family size.
- Addressing the lack of food and poor nutrition.

Who are the poor? The poor are more likely to be

- Widows, orphans, those living with HIV/AIDS, disabled, and refugees:
  - living in rural areas than urban areas;
  - living in the north;
  - dependent on smallholder farming and production of food crops;
  - vulnerable to risks—the most common being bad harvest, drought, illness and death in family; and
  - socially and politically excluded, leading to disempowerment.

The most salient characteristics of poor households are the following:

- Head of household is not employed.
- Many dependents make limited financial contributions.
- Social network of support is less developed or eroded.
- Lack of access to land and inputs for primary production.
- Cannot afford basic services.
- Dependent on remittances.

The following traits characterize poor communities:

- Lack of adequate basic services within the community;
- Lack of productive assets and livelihood opportunities;
- Lack of social unity;
- Physical isolation; and
- Location in conflict or insecure areas.

1/ This box integrates data from the integrated household surveys and the Uganda Participatory Poverty Assessment Project.

9. Corruption in the police force was cited as a barrier to using their services as a recourse to protection from corruption elsewhere, or to crime or banditry (notably the stealing of cattle in the northeast). In this context, the poor can be rendered powerless and isolated with few if any means to improve their welfare, gain access to basic social services, or protect themselves from theft of real assets.

III. UGANDA'S POVERTY REDUCTION STRATEGY

A. Background

10. **Poverty Eradication Action Plan (PEAP)**. Poverty eradication is the government's overarching development goal (Box 3). In November 1995, the government of Uganda, in partnership with the World Bank, held a seminar on poverty eradication, attended by representatives from government, NGOs, and the donor community. As a follow-up to the seminar, the government established the National Task Force on Poverty Eradication, which developed an action plan in consultation with sector ministries, donors, and civil society to ensure the widest possible participation. This work culminated in the publication in June 1997 of its PEAP. The principal goal of the PEAP is to reduce the incidence of poverty to 10 percent or less by 2017. In addition, the PEAP sets forth the goals of achieving universal access to primary education, primary health care, and safe drinking water (Table 3); guaranteeing political freedom and human rights; and establishing an effective disaster relief system targeted principally at the poor. The government intends to achieve these objectives by implementing policies to (i) increase the incomes of the poor and promote high rates of broad-based economic growth, particularly in agriculture, by improving rural road networks, land tenure, agriculture extension services, rural market infrastructure, and rural financial services; (ii) improve the quality of life of the poor by enhancing basic social services including primary health care, water and sanitation, and primary education; and (iii) promote good governance by improving security, transparency, accountability, and democratic processes.

11. **Medium-term budget framework**. The government began developing its annual budget in the context of a three-year medium-term budget framework in 1994/95. Since 1997/98, public expenditures have been redirected to programs supporting the objectives of the PEAP. The three-year framework, including a detailed discussion of underlying policies, is developed in a participatory manner involving donors and domestic stakeholders. The framework is published in the form of the Budget Framework Paper and the Background to the Budget, both of which are submitted to parliament. The Ministry of Finance establishes an overall expenditure ceiling for each of the three years consistent with its macroeconomic objectives. Sector-specific expenditure ceilings are transmitted to each spending unit, reflecting the government's economic objectives, most notably those contained in the PEAP. Spending units then submit detailed expenditure programs to the Ministry of Finance consistent with their overall ceilings. These submissions then form the government's detailed budget, which is submitted to parliament.

Box 3. Linking Macroeconomic Policy Choices to Poverty Outcomes

Consultation Process

- In June 1997, Uganda launched the Poverty Eradication Action Plan (PEAP), following a national consultation process involving a cross-section of stakeholders (central and local government, civil society, and private sector). The PEAP provides national priorities for poverty reduction and guides sector policies.
- A poverty status report (PSR) is produced on a biannual basis to review the implementation of the PEAP. The 1999 PSR also incorporates data from the recent Uganda Participatory Poverty Assessment Project (UPPAP). The UPPAP directly consulted poor communities on their priorities, needs, and perceptions of the quality of service delivery and government policies.
- As a result of these extensive consultations, the level of government and civil society ownership of the PEAP is high.

Policy Choices

Poverty Eradication Action Plan. The PEAP presents a multidimensional analysis of poverty priorities. Examples of policy choices from the PEAP and UPPAP include the following:

- A larger weighting for the provision of domestic water in budgets at central and local levels as a result of the communities' identifying access to clean water as a priority;
- Inclusion of the constraints and priorities expressed by primary producers in the design of the National Plan for the Modernization of Agriculture; and
- A focus on security (individual, household, community, and regional) and governance as key components for reducing poverty.

Medium-term budget framework (MTBF)

- The MTBF was introduced in 1994/95 as the vehicle by which medium-term budget priorities are formulated. The Government has utilized the MTBF since 1997/98 to better align spending priorities with the PEAP while ensuring medium-term financial stability and to provide for broader participation in the development of spending choices. Under the MTBF, line ministries are provided global budgetary ceilings on which to base their sectoral allocations. Since 1997/98, sectoral working groups, which are set up to develop sectoral priorities within the envisioned spending limits, have included participation from donors and NGOs, in addition to the Ministry of Finance and line ministries.
- For the first time, civil society is involved in the dialogue on priorities and spending commitments.
- To better reflect district poverty priorities and to bring local governments into the medium-term expenditure process, local government officials also prepare medium-term expenditure plans.
- This process feeds into the budget framework paper and annual budgets.

Poverty Action Fund

- The government established a Poverty Action Fund (PAF) to enhance transparency and monitoring of HIPC Initiative and other donor resources for expenditure programs focused on poverty.
- The PAF has four critical features: it is fully integrated into the government's budget; five percent of its resources are allocated to improve the accountability of PAF programs; PAF programs are outcome oriented; and expenditure, project implementation, and outcomes are reviewed on a quarterly basis with donors and representatives of civil society.

Institutional changes

- Institutional changes include the increased role of districts in the development, selection, and implementation of the PEAP; strengthening of the partnership between government and civil society; and the creation of a more open political environment where previously sensitive issues (e.g., land ownership, women's empowerment, security, corruption, and governance) are now part of the policy dialogue.

Policy implementation

Decentralization of services

- Recent UPPAP findings demonstrate major differences in the poverty profile among districts. As a result, policymakers recognize the need for flexibility in determining priorities and budgets of different districts.
- Decentralization helped expedite the implementation of equalization grants to enable districts to meet locally identified poverty priorities, and the need for greater flexibility in the design of conditional grants was recognized.

District participatory planning

- Initially, the UPPAP will work directly with ten districts to strengthen their capacity to consult poor communities in the areas of district planning and budgeting.

Monitoring Intermediate Targets and Policy Outcomes

- A transparent budget process with multiple channels for accountability (local constituencies, such as local authorities, press, community groups, NGOs, and donors) is being developed. To increase the transparency in decentralized expenditure management of the PAF, advertisements are placed in the press indicating amounts disbursed to each district. In the education sector, budget allocations for schools are posted on some school notice boards. Civil society (NGOs, district officials, parliamentarians, and media) meets quarterly with central government officials to discuss delivery against budget allocations.
- In addition, the Poverty Monitoring Unit integrates annual household surveys, conducted by the Uganda Bureau of Statistics, with other data sources (e.g., participatory analysis, sector surveys, and line ministry data sources) to ensure that poverty data and perceptions of the poor continually influence policy.

12. **Monitoring poverty indicators**. There are three principal institutions responsible for monitoring poverty indicators in Uganda: the Uganda Bureau of Statistics (UBS), the Poverty Monitoring Unit (PMU), and line ministries. The annual household surveys conducted by the UBS are a key component of the monitoring system, providing critical information on household income, expenditure, food consumption, employment, and production. The first survey was conducted in 1992/93, and four subsequent annual monitoring surveys have since been completed. The PMU was established in 1997 in the Ministry of Finance, Planning and Economic Development and is the focal point of the national poverty monitoring system. It is responsible for the compilation and analysis of information on poverty from other sources, disseminating this information to all stakeholders, coordinating the national policy dialogue on poverty, and providing the government with policy advice regarding the PEAP. It is also responsible for the UPPAP.

B. Recent Developments[5]

13. **Macroeconomic performance.** Macroeconomic performance in 1998/99 was generally better than programmed: real GDP growth was 7.8 percent and inflation was contained at 5.3 percent on an end-of period basis (Table 4). On an annual average basis, the inflation rate was -0.2 percent in 1998/99. Economic growth was broad based, with the agriculture expanding by 8.1 percent as it rebounded from the effects of drought and El Niño, and industry and services growing by 9.3 percent and 7.0 percent, respectively. In 1998/99, the overall stance of fiscal policy was broadly as envisaged (Table 5). The fiscal deficit was equivalent to 6.5 percent of GDP excluding grants (somewhat smaller than programmed), and 1.3 percent of GDP including grants (somewhat larger than programmed). Revenues were in line with projections. Total expenditures were in line with the program, as overruns in defense outlays were offset by curtailments of nonpriority development spending and the use of provisions set aside for contingencies. Broad money growth was contained to about 9 percent, somewhat lower than projected. The external current account deficit (excluding official transfers) was somewhat smaller than programmed as lower-than-expected imports offset shortfalls in coffee earnings and private transfers. However, lower-than-programmed disbursements of official grants and loans[6] (owing to the delay in completing the midterm review of the second annual arrangement under the IMF's ESAF) resulted in an overall balance of payments deficit of US$37 million, against a programmed surplus of US$47 million. Nonetheless, reserve coverage remained at a comfortable 4.8 months of imports of

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[5] Details of economic developments in 1998/99 and the program for 1999/2000 are provided in the government's memorandum of economic and financial policies (MEFP) posted on the Fund's Web site. Progress achieved in implementing structural reforms under IDA assistance are contained in the World Bank Uganda Strategy document.

[6] Many donors delayed disbursements of budget support programmed for 1998/99 pending the completion of the midterm review of the second annual arrangement.

Table 4. Uganda: Selected Economic and Financial Indicators, 1995/96–2001/02 1/

	1995/96	1996/97	1997/98			1999/2000	2000/01	2001/02
				Prog.	Prel.		Projections	
	(Annual percentage changes, unless otherwise indicated)							
National income and prices								
GDP at constant prices	7.8	4.5	5.4	7.0	7.8	7.0	7.0	7.0
GDP deflator	4.9	3.5	11.9	5.0	3.0	5.0	5.0	5.0
GDP at factor cost								
(in billions of Uganda shillings)	5,565	6,023	7,104	7,824	7,887	8,861	9,956	11,185
Consumer prices								
End of period	5.4	10.4	-1.4	5.0	5.3	5.0	5.0	5.0
Nonfood	7.2	1.7	3.5	5.0	3.1	5.0	5.0	5.0
Annual average	7.5	7.8	5.8	5.0	-0.2	5.0	5.0	5.0
External sector (in U.S. dollars)								
Exports, f.o.b.	-0.8	13.6	-31.7	16.5	19.8	6.2	13.9	11.7
Imports, c.i.f.	12.2	2.3	13.2	8.1	-2.6	9.1	7.3	8.4
Terms of trade (deterioration -)	-29.3	-11.5	12.4	-1.8	-6.7	-3.2	2.3	1.6
Average exchange rate								
(Uganda shillings per U.S. dollar)	1,013	1,058	1,150	1,232	1,362	...	...	...
Nominal effective exchange rate								
(average; depreciation -)	-4.7	-0.7	0.0	...	-14.0	...	...	...
Real effective exchange rate								
(average; depreciation -)	-1.7	2.2	2.2	...	-13.0	...	...	...
Government budget								
Total revenue and grants	15.2	16.9	16.5	17.0	13.8	25.4	6.7	11.7
Revenue	19.1	16.6	8.8	19.1	19.5	16.6	16.6	16.7
Expenditure and net lending	10.3	15.7	8.2	18.7	18.0	24.8	8.9	11.6
	(Annual changes in percent of beginning-of-period stock of money and quasi money, unless otherwise indicated)							
Money and credit								
Net foreign assets	20.2	29.4	32.4	15.0	13.3	13.0	10.8	11.5
Net domestic assets	-0.5	-11.1	-6.3	3.4	0.5	2.0	4.2	3.5
Domestic credit	18.7	4.7	2.2	3.4	13.7	2.0	4.2	3.5
Central government	5.3	2.4	-8.3	-8.6	-0.1	-5.0	-4.2	-5.1
Credit to the private sector	13.4	2.3	10.5	12.0	11.7	7.0	8.4	8.6
Money and quasi money (M3)	19.7	18.3	26.1	15.7	13.8	15.0	15.0	15.0
M2	20.7	15.8	23.7	17.0	9.1	17.0	15.0	15.0
Velocity (GDP/M2) 2/	10.0	9.2	9.0	8.4	8.6	8.6	8.3	8.1
Interest rate (in percent) 3/	10.2	11.0	9.4	...	6.4	...	...	...
	(In percent of GDP at factor cost)							
National income accounts								
Gross domestic investment	18.1	18.9	17.1	17.1	19.0	21.0	20.1	19.3
Public	6.3	6.4	5.8	...	6.0	7.3	6.8	6.7
Private	11.8	12.6	11.4	...	13.0	13.7	13.3	12.6
Gross national savings (including grants)	16.1	18.0	14.9	13.4	14.9	17.9	17.3	16.8
Public	4.2	4.3	5.1	...	4.7	5.9	5.1	5.0
Private	11.8	13.6	9.8	...	10.2	12.0	12.2	11.8
External sector								
Current account balance								
(including official grants)	-2.0	-0.9	-2.2	-3.7	-4.1	-3.1	-2.8	-2.5
(excluding official grants)	-7.0	-6.3	-8.4	-9.2	-8.9	-9.5	-7.9	-7.0
External debt (including Fund)	66.9	64.9	63.0	65.6	69.1	61.7	57.5	53.7
Government budget								
Revenue	11.3	12.1	11.2	12.1	12.1	12.5	13.0	13.5
Grants	4.5	4.9	5.6	5.7	5.2	6.7	5.3	4.7
Total expenditure and net lending	17.8	19.0	17.5	18.8	18.6	20.6	20.0	19.8
Government balance (excluding grants)	-6.5	-6.9	-6.3	-6.7	-6.5	-8.1	-7.0	-6.4
Government balance (including grants)	-2.1	-2.0	-0.7	-1.0	-1.3	-1.4	-1.7	-1.7
Net foreign financing	3.5	3.4	2.7	3.3	3.0	3.5	2.8	2.8
Domestic bank financing	-0.5	-0.9	-0.9	-0.9	0.0	-0.6	-0.6	-0.7
Domestic nonbank financing	-0.9	-0.5	-1.1	-1.4	-1.5	-1.5	-0.5	-0.4
	(In percent of exports of goods and nonfactor services)							
Debt-service ratio 4/								
Including Fund obligations	21.8	17.9	26.4	15.6	18.4	13.5	12.5	11.7
Excluding Fund obligations	15.6	10.6	16.4	7.4	9.9	6.6	6.8	7.2
	(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	61.2	107.3	109.2	47.1	-36.9	47.2	34.9	59.9
External payments arrears (end of period)	255.0	314.2	275.6	0.0	241.5	0.0	0.0	0.0
Foreign exchange reserves	479.7	621.9	750.5	832.7	732.6	831.8	892.1	966.8
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	3.6	4.5	4.8	5.0	4.8	5.0	5.0	5.0

Sources: Ugandan authorities; and staff estimates and projections.

1/ Fiscal year begins in July.
2/ Nominal GDP divided by average of current-year and previous-year end-period money stocks
3/ Weighted annual average rate on 91-day treasury bills.
4/ The debt-service ratio incorporates estimates of the effects of the April 1998 Paris Club stock-of-debt operation and assumes rescheduling with non-Paris Club bilateral and commercial creditors on comparable terms.

Table 5. Uganda: Fiscal Operations of the Central Government, 1995/96–2001/02 1/

	1995/96	1996/97	1997/98	Prog.	Prel.	1999/2000	2000/01	2001/02
							Projections	
	(In billions of Uganda shillings)							
Total revenue and grants	876.6	1,024.3	1,193.1	1,396.1	1,357.7	1,702.0	1,816.7	2,029.6
Revenue	627.2	731.4	795.5	947.4	950.7	1,108.5	1,292.4	1,507.6
Tax	588.8	688.1	748.4	871.5	888.0	1,031.6	1,192.8	1,395.8
Nontax	38.4	43.3	47.1	75.9	62.7	76.8	99.6	111.9
Grants	249.4	292.9	397.7	448.7	407.0	593.5	524.3	522.0
Import support	87.4	125.7	193.4	226.9	161.8	291.7	228.5	211.4
Project grants	162.0	167.2	204.3	221.8	245.2	301.8	295.8	310.6
Expenditures and net lending	991.0	1,146.3	1,239.9	1,472.8	1,463.1	1,826.2	1,988.1	2,219.2
Current expenditures	554.0	667.6	728.0	820.1	870.3	1,004.4	1,120.1	1,254.1
Wages and salaries	167.4	227.0	255.8	334.6	341.2	410.2	459.5	528.0
Of which: defense	25.1	30.7	30.1	60.9	68.1	100.7	108.9	121.9
primary education	43.1	70.0	87.4	100.0	96.1	114.3	132.9	152.2
Interest payments	59.0	62.9	74.8	79.3	75.3	85.3	96.6	102.4
Domestic	13.6	22.0	29.1	28.0	21.4	31.4	35.5	37.3
External	45.4	40.9	45.7	51.3	53.9	53.9	61.0	65.1
Transfers to the Uganda Revenue Authority	19.7	26.4	25.4	28.6	29.7	35.0	36.8	38.6
Defense	88.3	92.0	75.1	69.8	112.5	69.7	80.2	91.9
Priority Program Areas	87.4	96.4	110.4	152.3	154.4	176.7	206.8	246.1
Statutory	34.7	22.4	61.5	35.7	35.3	70.7	74.1	62.3
Other	97.5	140.5	125.1	119.8	121.9	156.8	166.2	184.7
Development expenditures	429.8	476.7	508.9	617.4	590.6	780.1	824.0	900.6
External	360.0	371.5	419.2	443.6	445.9	510.8	500.6	525.6
Domestic	69.9	105.1	89.7	173.8	144.7	269.3	323.4	375.0
Of which: defense	4.0	8.2	8.4	17.2	7.4	6.6	7.9	9.7
primary education	0.0	0.0	4.8	36.2	30.2	63.0	70.8	79.5
Net lending and investment 2/	7.2	2.0	3.0	3.0	2.3	15.2	8.0	8.0
Contingency	0.0	0.0	0.0	32.3	0.0	26.4	36.0	56.5
Overall balance								
Including grants	-114.4	-122.0	-46.8	-76.7	-105.4	-124.2	-171.4	-189.5
Excluding grants	-363.8	-414.9	-444.4	-525.4	-512.5	-717.7	-695.7	-711.5
Domestic balance 3/	41.6	-2.5	20.4	-30.5	-12.7	-152.9	-134.1	-120.8
Financing	114.4	122.0	48.8	76.7	115.7	124.2	171.4	189.5
External financing (net)	195.4	207.4	194.8	261.1	236.0	312.6	280.7	315.6
Disbursement	248.5	253.0	254.8	361.4	335.8	413.1	365.4	407.2
Import support	50.5	48.6	50.5	139.6	90.6	204.1	160.6	192.2
Project loans	198.0	204.3	204.3	221.8	245.2	209.0	204.8	215.0
Amortization (-)	-66.8	-68.7	-77.9	-89.3	-101.0	-111.5	-115.1	-122.4
Payment of external arrears	-11.1	-7.1	-16.3	-16.2	-14.3	-17.7	0.0	0.0
Payment of nondebt arrears	0.0	0.0	0.0	-23.8	-15.4	0.0	0.0	0.0
Exceptional financing	24.8	30.2	34.2	28.9	30.9	28.7	30.4	30.9
Domestic financing (net)	-81.0	-85.4	-146.1	-184.4	-120.3	-188.4	-109.3	-126.1
Bank financing 2/	-29.6	-55.6	-67.1	-73.8	-1.1	-57.6	-56.3	-78.1
Bank of Uganda	-67.2	-147.3	-103.4	...	22.4	...	...	...
Commercial banks	37.6	91.6	36.2	...	-23.5	...	...	...
Of which: project accounts	...	...	...	...	-44.5	...	...	...
Nonbank financing	-51.4	-29.7	-78.9	-110.6	-119.2	-130.8	-53.0	-48.0
Check float	-28.8	0.8	-18.4	-5.0	-0.6	-5.0	-5.0	-5.0
Payment of domestic arrears	-23.1	-28.1	-47.4	-99.6	-116.0	-120.0	-58.0	-58.0
Promissory notes (net)	...	...	-25.7	-16.0	-7.8	-10.8	0.0	0.0
Other 4/	0.5	-2.4	12.6	10.0	5.1	5.0	10.0	15.0
Of which: treasury bills	...	...	...	10.0	5.1	...	...	...
Errors and omissions/financing gap	0.0	0.0	-2.0	0.0	-10.3	0.0	0.0	0.0
	(In percent of annual GDP at factor cost, unless otherwise indicated)							
Total revenue and grants	15.8	17.0	16.8	17.8	17.2	19.2	18.2	18.1
Revenue	11.3	12.1	11.2	12.1	12.1	12.5	13.0	13.5
Grants	4.5	4.9	5.6	5.7	5.2	6.7	5.3	4.7
Expenditures and net lending	17.8	19.0	17.5	18.8	18.6	20.6	20.0	19.8
Current expenditure	10.0	11.1	10.2	10.5	11.0	11.3	11.3	11.2
Development expenditures	7.7	7.9	7.2	7.9	7.5	8.8	8.3	8.1
External	6.5	6.2	5.9	5.7	5.7	5.8	5.0	4.7
Domestic	1.3	1.7	1.3	2.2	1.8	3.0	3.2	3.4
Overall balance								
Including grants	-2.1	-2.0	-0.7	-1.0	-1.3	-1.4	-1.7	-1.7
Excluding grants	-6.5	-6.9	-6.3	-6.7	-6.5	-8.1	-7.0	-6.4
Domestic balance 3/	0.7	0.0	0.3	-0.4	-0.2	-1.7	-1.3	-1.1
Primary balance	...	...	0.4	0.0	-0.4	-0.4	-0.8	-0.8
Financing	2.1	2.0	0.7	1.0	1.5	1.4	1.7	1.7
External financing (net)	3.5	3.4	2.7	3.3	3.0	3.5	2.8	2.8
Domestic bank financing (net)	-0.5	-0.9	-0.9	-0.9	0.0	-0.6	-0.6	-0.7
Domestic nonbank financing (net)	-0.9	-0.5	-1.1	-1.4	-1.5	-1.5	-0.5	-0.4
Bank recapitalization bonds (in billions of Uganda shillings)	60.0	72.0	...	...	...	...	...	...
Total defense expenditures	2.1	2.2	1.6	1.9	2.4	2.0	2.0	2.0
Wages and salaries	3.0	3.8	3.6	4.3	4.3	4.6	4.6	4.7
Priority Program Areas and primary education development expenditure	1.6	1.6	1.6	2.4	2.3	2.7	2.8	2.9

Sources: Ugandan authorities; and staff estimates and projections.

1/ Fiscal year begins in July.
2/ Excludes face value of recapitalization bonds issued to the Bank of Uganda and to the Uganda Commercial Bank. However, full provision is made for the interest costs and amortization associated with these bond issues.
3/ Revenues less expenditures, excluding external interest due and externally financed development expenditures
4/ Includes errors and omissions through 1996/97.

goods and services. The exchange rate depreciated by about 15 percent to U Sh 1,448 per U.S. dollar during the year ended June 1999, and has since stabilized at about U Sh 1,500 per U.S. dollar.

14. Inflationary pressures increased during the first half of 1999/2000, but the authorities have taken appropriate measures. Overall inflation (on an end-year basis) has picked up considerably from 5.3 percent in June 1999 to 10.6 percent in November 1999, reflecting in part the impact of the regional drought on food prices; nonfood inflation also rose to 7.9 percent in November 1999 from 3.5 percent in June 1999, owing to the past depreciation of the Uganda shilling. In response, the Bank of Uganda (BOU) has maintained a tight monetary policy stance. The rediscount rate, which was raised gradually from 9.7 percent in June 1999 to 14 percent in November 1999, has been kept at this high rate. International reserves were higher at end-September than envisaged under the program, and the U.S. dollar/Uganda shilling exchange rate, which depreciated moderately between June 1999 and September 1999, has remained stable since then. The domestic fiscal balance (revenues less domestic expenditures) was lower than projected in the first quarter as shortfalls in revenue (U Sh 6 billion, 0.1 percent of GDP) were more than offset by lower expenditures (U Sh 31 billion, 0.4 percent of GDP). Expenditures on Priority Program Areas (PPAs) were moderately below expectations in the first quarter largely because of implementation problems; releases to ministries were maintained at the budgeted levels.

15. **Poverty Action Fund**. The government established the Poverty Action Fund (PAF) in 1998/99 to enhance transparency, accountability, and monitoring of selected antipoverty programs to be funded in part by assistance received under the original HIPC Initiative and incremental assistance from other donors. The PAF has four key features: it is fully integrated into the government's budget; five percent of its resources are allocated to improve the accountability of PAF programs; programs are output oriented; and expenditures, project implementation, and outcomes are reviewed on a quarterly basis with donors and representatives of civil society. A total of U Sh 78 billion (1.0 percent of GDP) were mobilized by the PAF in 1998/99. As a number of the activities funded by the PAF are carried out by local governments, PAF funding for these activities has taken the form of conditional grants to districts. The use of these funds is limited to the specific activities (e.g., the agriculture extension conditional grant which is to be used only for the hiring of agriculture extension officers at local levels) and conditions for use and accounting of funds are spelled out in guidelines which are issued by the relevant line ministry. These guidelines have often been issued with some delay, leading to delays in the use of PAF funds. In addition, guidelines involve compliance with a large number of conditions, and compliance has strained administrative capacity at local levels and restricted their capacity to access the funds.

16. **Social expenditures and donor support**. There are currently three overlapping indicators of the level of government spending on its poverty reduction strategy: spending financed by the PAF, which is exclusively antipoverty in focus but not comprehensive; spending on PPAs, which, although it contains more of the government's antipoverty programs than does the PAF, is still not comprehensive and not exclusively antipoverty in

focus; and spending by seven key ministries (education, health, agriculture, roads and works, water, police and local defense units, and agencies responsible for governance), which is comprehensive but not exclusively antipoverty. By any of these measures, social expenditures increased substantially in 1998/99, the first year assistance under the original HIPC Initiative became available. Expenditures by the seven key ministries increased from 5.1 percent of GDP in 1997/98 to 6.1 percent in 1998/99 (Table 6). Outlays for PPAs increased by 0.7 percent of GDP and expenditures on programs financed through the PAF increased by 1 percent of GDP in the fund's first year of operation. The increase in antipoverty expenditures occurred against a backdrop of a decline in total donor budget support relative to GDP. While assistance under the original HIPC Initiative was 0.8 percent of GDP in 1998/99, there was a decline in non-HIPC budget support amounting to 1 percent of GDP owing to the delays in disbursements noted above (Table 6). This development highlights the difficulty of directly linking increases in social spending to resources made available through debt relief alone in the presence of fungibility of donor resources.

17. **Extension of medium-term budget process to include districts**. The central government extended the medium-term budget framework in 1998/99 to include all district governments for the first time, and with technical assistance from the IMF, IDA, and other donors, has begun improving district practices with regard to budget preparation, execution, and monitoring. The budget process for 2000/01 commenced in October 1999. Work is now under way to link the three-year expenditure ceilings for six key ministries (education, health, water, roads, law and order, and agriculture) to specific monitorable output indicators.

18. **Decentralization.** The decentralization of public services to districts is constitutionally mandated and the Local Government Act (1997) details the responsibilities assigned to each tier of government. While the national poverty dialogue, goals, and policies will continue to be coordinated at the central level, the government's antipoverty programs will increasingly be implemented at the local government level as the latter (including local councils) are considered to be in the best position to assess local needs and to respond quickly and effectively to changing poverty conditions. Responsibility for delivering key public services (education, health, water, and agricultural extension services) has already been transferred to the districts. Correspondingly, total financial grants from the central government to districts rose from 9 percent of total central government expenditures in 1994/95 to 20 percent in 1998/99. About 80 percent of total grants are conditional, earmarked for education, roads, agricultural extension services, and health services. The districts have been receiving technical assistance in budget development, implementation, and monitoring to enhance their capacity to control and monitor expenditures and assess the impact of district spending. With technical assistance from the IMF, IDA, and other donor agencies, efforts are under way to introduce by 2000/01 a harmonized district budget classification and accounting system.

19. **Governance, transparency, and accountability**. In addition to the increases in resources for key anticorruption agencies and improvements in budget management noted above, the government has implemented a wide range of reforms to improve governance, transparency, and accountability. A Minister of State for Ethics and Integrity was appointed

Table 6. Uganda: Social Expenditures, 1997/98–2001/02

	1997/98	1998/99	1999/2000	2000/01	2001/02
			(In billions of Uganda shillings)		
Total expenditures	1,239.9	1,463.1	1,826.2	1,986.4	2,215.7
Domestic expenditures 1/	775.1	963.4	1,261.4	1,424.8	1,624.9
Social expenditures	365.8	477.9	625.5	715.3	821.0
Education	211.8	273.3	340.5	391.1	447.1
Health	53.4	67.5	82.3	90.4	102.7
Agriculture	9.2	9.9	18.4	20.4	23.5
Roads and works	40.0	60.5	105.6	125.9	145.3
Water, lands, and environment	5.5	15.1	21.2	24.8	30.1
Police and local defense units	42.5	46.0	50.2	54.9	62.8
Governance and transparency 2/	3.4	5.7	7.3	7.9	9.6
Expenditures on Priority Program Areas	115.2	184.6	239.7	277.6	325.6
Poverty Action Fund expenditures 3/	52.5	130.3	207.1	266.5	...
Net donor inflows 4/	592.5	643.1	906.1	805.0	837.7
Import (budget) support	243.9	252.4	495.8	389.1	403.6
Of which: original HIPC	0.0	61.4	60.9	58.4	52.9
Project support	408.5	490.4	510.8	500.6	525.6
Amortization, cash arrears payments, and other exceptional finaning	-59.9	-99.8	-100.5	-84.7	-91.6
			(In percent of GDP)		
Total expenditures	17.5	18.6	20.6	20.0	19.8
Domestic expenditures 1/	10.9	12.2	14.2	14.3	14.5
Social expenditures	5.1	6.1	7.1	7.2	7.3
Education	3.0	3.5	3.8	3.9	4.0
Health	0.8	0.9	0.9	0.9	0.9
Agriculture	0.1	0.1	0.2	0.2	0.2
Roads and works	0.6	0.8	1.2	1.3	1.3
Water, lands, and environment	0.1	0.2	0.2	0.2	0.3
Police and local defense units	0.6	0.6	0.6	0.6	0.6
Governance and transparency 2/	0.0	0.1	0.1	0.1	0.1
Expenditures on Priority Program Areas	1.6	2.3	2.7	2.8	2.9
Poverty Action Fund expenditures 3/	0.7	1.7	2.3	2.7	...
Net donor inflows 4/	8.3	8.2	10.2	8.1	7.5
Import (budget) support	3.4	3.2	5.6	3.9	3.6
Of which: original HIPC	0.0	0.8	0.7	0.6	0.5
Project support	5.8	6.2	5.8	5.0	4.7
Amortization, cash arrears payments, and other exceptional finaning	-0.8	-1.3	-1.1	-0.9	-0.8
			(In percent of total expenditures)		
Total expenditures	100.0	100.0	100.0	100.0	100.0
Domestic expenditures 1/	62.5	65.8	69.1	71.7	73.3
Social expenditures	29.5	32.7	34.2	36.0	37.1
Education	17.1	18.7	18.6	19.7	20.2
Health	4.3	4.6	4.5	4.6	4.6
Agriculture	0.7	0.7	1.0	1.0	1.1
Roads and works	3.2	4.1	5.8	6.3	6.6
Water, lands, and environment	0.4	1.0	1.2	1.2	1.4
Police and local defense units	3.4	3.1	2.8	2.8	2.8
Governance and transparency 2/	0.3	0.4	0.4	0.4	0.4
Expenditures on Priority Program Areas	9.3	12.6	13.1	14.0	14.7
Poverty Action Fund expenditures 3/	4.2	8.9	11.3	13.4	...
Net donor inflows 4/	47.8	44.0	49.6	40.5	37.8
Import (budget) support	19.7	17.3	27.1	19.6	18.2
Of which: original HIPC	0.0	4.2	3.3	2.9	2.4
Project support	32.9	33.5	28.0	25.2	23.7
Amortization, cash arrears payments, and other exceptional finaning	-4.8	-6.8	-5.5	-4.3	-4.1

Source: Ugandan authorities; and staff estimates.

1/ Excludes external interest due and externally financed development expenditures.
2/ Comprises Office of the Auditor General, Department of Public Prosecution, and Inspector General of Government.
3/ Budget provisions for programs included in the PAF. Wages for primary school teachers are not included.
4/ Total grants, plus loan disbursements, less amortization, less cash arrears payments, plus exceptional financing on current maturities.

in 1998 to coordinate the government's anticorruption policy and the government unveiled its Anti-Corruption Action Plan in December 1998. The Inspector General of Government initiated a number of high profile investigations, which have led to the dismissal of senior officials and criminal prosecution. The government has been conducting a special judicial inquiry into alleged corruption in the Uganda Police and the transcripts of these proceedings have been published in the Ugandan press. The government participated in the IMF's exercise on transparency practices, consented to having the report published on the IMF's website, and has agreed to participate in the General Data Dissemination System (GDDS). The authorities have also, with technical assistance from the IMF, implemented a Commitment Control System which, based on preliminary results, is eliminating the accumulation of new domestic arrears, and enhancing transparency and accountability of central government fiscal operations.

20. Uganda has implemented a far-reaching affirmative action program to promote women's political participation. National and local elective offices have been reserved for women, and the number of women holding seats in parliament has risen. The government has also incorporated gender equality into the national legal framework.

21. **Sectoral policies**. The government has been developing sector-wide policy frameworks in five key sectors (education, health, water, agriculture, and roads). While progress was realized in all these sectors, the government focused on the UPE program in 1998/99, owing to the central role of primary education in its poverty reduction strategy (Box 4). The implementation of the UPE program has resulted in an increase in net primary school enrollment from 2.3 million in December 1996 to 6.5 million in March 1999.[7] The Ministry of Education and Sports released its first sector-wide plan, the Education Sector Investment Plan (ESIP), which provides the framework for all future investment in the sector. The ESIP specifies target activities required over the medium term for the successful and effective development of the education sector as a whole, with an emphasis on the UPE program, including the provision of capitation grants, teachers' training, textbook provision, and the construction of classrooms.

[7] The UPE program covers most of the costs of primary education for up to four children per household. Households are still required to pay for uniforms, meals, and school supplies.

Box 4. Uganda's Commitment to Basic Education

During the 1990s, the Ugandan government and people embarked on a sweeping national program to achieve universal primary education.

Elimination of most barriers to access. Prior to January 1997, fees were minor but Parent-Teacher Association dues amounted to US$6–8 per child, a major burden for the bulk of Ugandan families. Starting in January 1997, free schooling was introduced for up to four children per household. Primary enrollments immediately doubled to 5.2 million and reached 6.5 million in 1999.

Sustained budgetary commitment. The government has dramatically increased the share of the national budget going to education, which in 1998/99 stood at 19 percent of the domestic budget, up from 12 percent in 1995/96. Two–thirds of this went to primary education. Waste has been reduced with the elimination of ghost teachers, cutting payroll numbers by a third. Moreover, the government is committed that future increases in government spending shall be concentrated on education.

Thorough decentralization with central support. All primary education is now run by the 45 districts. Each district deploys and pays teachers, though they remain centrally financed. Classroom construction is also managed at district level using a community-demand approach, which has resulted in faster and better quality construction. Multigrade teaching is being piloted in sparsely populated areas. Support to schools and teachers is provided by a cascading system linking teacher training colleges to district coordinating centres and then to schools. Nationally, 560 tutors are in place, each responsible for supporting 20 schools, a large but manageable responsibility. Schools select textbooks from a nationally approved list.

Curriculum reform. The curriculum has been modernized for the core subjects of mathematics, English, social science, and natural science. Books and materials have been developed and are being deployed. An assessment system is being put into place to measure student achievement over time.

Teacher support. Teacher pay has been increased over the past decade. Competency tests have been administered to all uncertified teachers and an in-service training program introduced for those deemed trainable. There are still insufficient teachers, given the massive increase in student enrollments, but the government is committed to reduce student-to-teacher ratios rapidly, from about 60:1 today (and as high as 100:1 in the first two primary years) to 40:1 as soon as is financially feasible. Budgetary increases to fund more teachers and build classrooms are the government's expenditure priority for the next decade. Teachers are the key element now to assure quality, which naturally gives cause for concern, given the extraordinary system changes in recent years and the continued shortage of teachers relative to students.

C. Poverty Reduction Strategy for 1999/2000–2001/02

Macroeconomic policies and the medium-term budget framework

22. High rates of broad-based economic growth within the context of macroeconomic stability are a prerequisite to the substantial reduction of poverty in Uganda over the next 15 years. In this regard, the overall medium-term macroeconomic objectives, as set forth in the updated policy framework paper (PFP), are annual real GDP growth of 7 percent (which would be compatible with average growth rates in agriculture, industry and services of 3.5 percent, 14 percent and 7 percent a year, respectively); annual inflation of about 5 percent; and gross international reserves equivalent to about five months of imports of goods and services. The targeted rate of economic growth would require a modest increase in the investment rate from about 19 percent in 1998/99 to an average of about 20 percent during the three-year period. Domestic savings would rise from about 15 percent of GDP to an average of about 17 percent (Table 4).

23. On the basis of existing commitments, net donor support (including grants) is projected to rise from 8.2 percent of GDP in 1998/99 to 10.2 percent in 1999/2000, before falling gradually to 7.5 percent of GDP by the end of the three-year period. These net inflows

would more than cover the increase in the fiscal deficit, excluding grants (from 6.5 percent of GDP in 1998/99 to 8.1 percent in 1999/2000), arising mainly from enhanced spending on social and priority programs. The deficit (excluding grants) would gradually fall to about 6.4 percent of GDP in 2001/02 (Table 5). The overall deficit, including grants, is projected to rise from 1.3 percent of GDP in 1998/99 to 1.4 percent of GDP in 1999/2000 and then to 1.7 percent of GDP in 2000/01 and 2001/02. At the same time, the government would clear all identified domestic arrears and effect a modest buildup of deposits with the banking system. Fiscal revenues would rise by about 0.5 percent of GDP a year. On this basis, total expenditures would rise by about 2 percent of GDP to 20.6 percent of GDP in 1999/2000 and then decline gradually to 19.8 percent GDP in 2001/02. However, the projected decline in donor project support after 1999/2000 would be reflected in a reduction in the ratio of overall government development spending to GDP. These projections do not include debt relief that may be granted to Uganda under the enhanced HIPC Initiative. In the event of higher donor inflows, the government would allow the deficit to increase to accommodate an accelerated implementation of the government's PEAP and larger outlays for development programs, consistent with effective implementation capacity and sustained macroeconomic stability.[8] Based on a continued modest decline in money velocity, broad money (M2) growth in the range of 15–17 percent a year would be consistent with the inflation and real GDP growth objectives.

24. Outlays in the seven key budget areas are budgeted to increase by 30 percent in nominal terms in 1999/2000 to about 7 percent of GDP, or 34 percent of domestic expenditures (Table 6).[9] Outlays for PPAs plus the UPE program component of the development budget would rise from 2.3 percent of GDP to 2.7 percent. Outlays on projects financed from the PAF are budgeted to increase from 1.7 percent to 2.3 percent of GDP. Social expenditures would continue to rise moderately relative to GDP and total expenditures throughout the three-year period. The outlays in the seven ministries would be about 2 percent of GDP higher in 1999/2000 than they were in 1997/98, in line with the increase in total budget support, and notably larger than the resources made available through the original HIPC Initiative. The authorities intend to maintain these levels of social expenditures relative to GDP during the medium term, despite a decline after 1999/2000 in both total budget support and assistance under the original HIPC Initiative relative to GDP. Furthermore, spending by the seven key ministries are projected to be higher by 2.2 percent of GDP in 2001/02 relative to levels realized in 1997/98, compared with an increase in donor budget support of only 0.2 percent of GDP (including assistance under the original HIPC Initiative amounting to 0.5 percent of GDP).

[8] Even if the resources that could be provided under the enhanced HIPC Initiative were front-loaded, additional resources would not likely exceed 1.5 percent of GDP a year.

[9] Excludes assistance under the enhanced HIPC Initiative.

25. Line ministries are currently developing output indicators for 2000/01–2002/03 in the areas of education, health, water, and roads based on provisions contained in the medium-term budget. This work will lay the foundation for estimating the budget cost of achieving a broad range of intermediate social targets. The targeted intermediate indicators and the poverty outcome indicators, by which the government will assess the effectiveness of its poverty eradication policies, will be developed in consultation with all stakeholders. This work is expected to be finished in time to form the basis of the government's poverty reduction expenditure program for 2000/01. Outlays for defense would be contained at about 2 percent of GDP. This projection is predicated on the assumption that the regional and internal security situations do not deteriorate, and reflect the role of the defense ministry in promoting internal security, particularly against insurgency and theft in the northern and eastern regions.

Structural and institutional reforms

26. The remaining reform agenda places high priority on developing a sustainable environment that is conducive to private sector development by addressing key constraints relating to the effective delivery of public services, financial and physical infrastructure, public utilities and in particular Uganda's power facilities. The government will continue to press ahead with the privatization program and trade liberalization, while strengthening tax administration to ensure that tax revenues continue to rise in proportion to GDP to ensure the sustainability of the government's PEAP. Finally, the focus on improving governance, transparency, and accountability will be reinforced.

27. **Poverty Action Fund**. Budget resources channeled through the PAF will be increased and administrative procedures for disbursing these resources will be streamlined. To address the problems noted above, the government intends to shift to a more flexible approach for the distribution and utilization of PAF funds. Instead of focusing on compliance with numerous detailed conditions to access the fund, beginning in 2000/01 the emphasis will be first and foremost on outcomes and on results on the ground. Under this approach, quantified work plans will be developed at the district level detailing expected outputs from use of PAF funds (e.g., number of classrooms constructed, number of boreholes rehabilitated). PAF funds would be released quarterly based on successful execution of agreed workplans, reducing the need for detailed conditions for access.[10] It is expected that this approach once implemented should permit a substantial increase in the ability of local authorities to use PAF funds. Local communities will be involved in the monitoring of PAF resources to enhance implementation and accountability. This will be done by publicizing at local levels the amount of PAF resources made available and their intended uses, providing local communities with the means to monitor the employment of PAF resources. Reporting requirements on PAF funds usage at local levels will be standardized and responsibility for preparation of reports and

[10] There would remain some conditions for access, primarily relating to the financial accounting of PAF funds. However, the number of access conditions would be substantially streamlined and the reporting format standardized.

their evaluation made clear. In addition to these procedures, an independent audit of the PAF will be commissioned by the Auditor General each year so that donor funded element of the flows into and out of the PAF can be confirmed. The government will also be developing a strategic communications plan to improve the dissemination of information on the respective roles and responsibilities of districts and the central government in accounting for and monitoring the use of PAF resources.

28. **Tax administration**. As no new tax measures are envisaged in the short run, while trade taxes are to be reduced further, improvements in revenue performance will hinge crucially on improvements in tax administration and the general buoyancy of the value-added and income taxes. The Uganda Revenue Authority (URA) will continue to strengthen the audit, assessment and enforcement procedures of the Large Taxpayer Department (LTD). The URA will also introduce a new information technology to integrate the computer systems of the various tax departments, and implement an updated customs modernization plan which will, inter alia, reinforce existing measures to combat smuggling, expedite the clearance of goods, and improve the customs information system.

29. **Equalization grant.** Inequality across districts and regions varies due to factors such as climate, type of agriculture, access to services, degree of isolation and security. This inequality has been recognized and, as discussed earlier, the government is introducing an equalization grant to the poorest districts. This grant will not be earmarked and district governments will therefore be able to respond to specific priorities, including security concerns.

30. **Decentralization, capacity building, and the delivery of public services**. Decentralization is a crucial element of the government's poverty reduction strategy. Key policy objectives with regard to future improvements in the decentralization process include (i) building budgeting and programming capacities at the local government level; (ii) enhancing accountability with regard to the use of fiscal resources through the implementation of an integrated fiscal management system; (iii) and implementing, beginning in 1999/2000, effective equalization grants to help address the unequal distribution of resources and access to basic public services. The government will transfer an increasing volume of budgetary resources to districts. Commensurate with this, there is a continuing need to build Ugandan technical, operational and administrative capacity at the district level. Much of district capacity building will be done in the context of the recently launched Local Government Development Program (LGDP) (with support from IDA and other donors) which focuses on increasing capacity in the areas of project planning, programming, budgeting and monitoring. IDA's Economic and Financial Management Project II (EFMP II) would support these efforts by financing the design and implementation of the harmonized, transparent fiscal management system. Finally, the authorities are continuing to receive technical assistance from the IMF in the area of budget formulation and execution at the district level.

31. **Financial sector**. The government will continue its efforts to promote a sound financial system. Central to these efforts will be the enactment of a revised Financial Institutions Statute (FIS). Moreover, the BOU will strengthen its supervisory capacity through staff increases, upgrading of skills, and technical assistance, with a view to developing the capacity to examine all banks, at least once a year, by 2000/01. The BOU will continue to enforce its policy of intervening in banks not adhering to prudential guidelines and to closing banks, which fail to adhere to remedial memoranda of understanding leading to full compliance with all prudential guidelines. To maintain the momentum gained to date with regard to the recovery of commercial bank nonperforming assets, the mandate of the Non-Performing Asset Recovery Trust (NPART) has been extended by two years to October 2001. The government also intends to reprivatize the Uganda Commercial Bank Ltd. (UCBL), following the resolution of current legal proceedings relating to an earlier failed privatization effort.

32. **Trade reform**. Three steps remain to be taken to complete the government's trade reform program: the further reduction in temporary surcharges on imports of beer, soft drinks, automotive batteries, and tobacco products leading to their elimination in 2000/01; the elimination of the discriminatory excise tax on non-COMESA imports; the elimination of special protection for sugar and selected textile products.

33. **Privatization and public enterprise reform.** In the area of privatization and public enterprise reform, the government will focus its efforts on implementing measures to enhance the efficiency of the privatization process, expedite the privatization of key public enterprises, and strengthen monitoring of the financial performance of the remaining parastatals, particularly public utilities. The government's proposed amendments to the Public Enterprise Reform and Divestiture (PERD) statute were approved by parliament in December 1999, including a proposal to the bill's provisions for accountability of public officers. With regard to the Uganda Electricity Board (UEB), parliament recently approved legislation paving the way for the privatization of the UEB in particular, and for private sector participation and competition in the power sector in general. With funding from IDA, restructuring and privatization advisors are expected to be appointed by February 2000 to prepare comprehensive recommendations regarding the unbundling of the UEB into separate corporate entities and the modalities for introducing private sector participation and competition to the sector. The cabinet will consider the principles underlying establishment of a single independent multisector utility regulatory agency and propose legislation to parliament in 1999/2000. In order to bring greater transparency and accountability to the financial operations of public enterprises, the government will set detailed operational and financial performance contracts with managers of the three largest public enterprises (UEB, Uganda Railways Corporation (URC), and National Water and Sewerage Corporation (NWSC)) and submit the targets to parliament, along with the 2000/01 budget. New appointment letters will be sent to the managers specifying their responsibilities and reporting requirements, as well as penalties for noncompliance.

34. **Governance, transparency, and accountability**. Full implementation of an effective anticorruption strategy will be essential to the realization of the government's poverty reduction objective. Corruption impedes the effective delivery of public services to the poor and has been identified by firms as a constraint to private sector investment. The budget provides substantial increases in the resources allocated to the three main central governance agencies; the Inspector General of Government (IGG), the Department of Public Prosecutions (DPP), and the Auditor General. Other key elements of the government's anticorruption strategy include presenting to parliament a strengthened Leadership Code in 1999/2000 (requiring mandatory disclosure of financial assets and potential conflicts of interest) and establishing a National Procurement Policy Unit by June 2000. The government is wrapping up an extended public judicial hearing on corruption in the police force, which has been extensively covered in the Uganda media. In addition, the government will improve the timeliness and public dissemination of audited accounts of the budgets of the central and district governments and other economic and social statistics. Moreover, the government is pressing forward with decentralization, which by devolving decision making to local levels will increase the ability of the poor to control and oversee the allocation of resources.

Sectoral reforms

35. The government's sector strategies will focus on five areas; primary education, primary health care, water and sanitation, agriculture, and rural roads. In order to consolidate and rationalize the disparate projects undertaken in each of these sectors, the authorities are developing or implementing a Sector-Wide Approach (SWAP) in each area with technical and financial assistance from IDA and other donors. These SWAPs are addressing the weaknesses in service delivery noted above. SWAPs have already been developed for education and primary health care, and the government is currently discussing one for the rural water sector with donors.

36. **Primary education**. The government's objective is to achieve high quality free primary education for all children by 2002/2003 by reducing class size, increasing the availability of textbooks and improving the quality of teachers. The ESIP established two key norms deemed necessary to ensure quality: a pupil-to-teacher (or classroom) ratio of 55 and a pupil-to-textbook ratio of 1. However, these targets will not be achievable by 2002/03 under current projections of domestic and donor resources. The government is now aiming to construct an additional 28,000 classrooms by 2002/03, and achieve a student-to-textbook ratio of 2. To improve the quality of teaching, the government is integrating the Teacher Development Monitoring System (TDMS) into the Ministry of Education and Sports and will be providing TDMS with adequate funding to monitor and support the teaching-learning process in schools. The government's medium-term expenditure framework provides for a 50 percent increase in the primary school teacher wage bill over three years to ensure that resources are available to attract a sufficient number of qualified staff. There are pilot projects, such as the Basic Education in Urban Poverty Areas Project and special programs among pastoralists, fishing communities, which target the poor or disadvantaged, and whose wider extension would require additional resources. The government also plans to expand

secondary education in order to meet the demand for access to secondary school as increasing numbers move through primary school. Given the resource constraint and the number of stakeholders, the government is developing an expansion strategy involving partnerships with communities, NGOs, parents, and the private sector.

37. **Primary health care**. In the UPPAP consultations, poor health was often cited as a major cause and outcome of poverty. The overall objective of the government is to achieve a sustainable standard of health for all Ugandans. Under the new Health Sector Program, the government's strategy for improving health outcomes will be based on (i) implementation of cost-effective interventions through a minimum health care package targeted to major causes of ill health; (ii) adoption of a sector-wide approach (SWAP) for health; and (iii) establishment of functional coordination mechanisms, at the center and district levels, for the national multisectoral response to the HIV/AIDS epidemic. The implementation of SWAP is envisaged to commence during 2000/01 and will focus on improving service delivery (including the immunization program). Furthermore, based on the decentralization program, the government will continue to strengthen the districts to coordinate and deliver health services, and prepare districts to adopt and implement the new National Health Policy and Strategic Plan. Additional funding is required in the medium term, accompanied by efforts to reduce irregular charging, to improve service delivery to the poor and ensure that increased transparency leads to more effective supply of drugs. Outlays in the health sector in the medium term will focus on expanding the number of rural health facilities, focussing on those areas where persons currently live more than 5 kilometers from the nearest facility; increasing the number of qualified staff in these facilities; raising the number of facilities offering the basic package of health care services; and on providing an expanded education outreach of HIV and AIDS, particularly to rural communities. A total of 47 Level IV health centers are scheduled to be upgraded in 1999/2000, leaving another 47 centers to complete the process. Resources for the remaining centers will be incorporated in the 2000/01 budget. The 1999/2000 budget provides for a doubling of the staff in health centers; in 1998/99, only 34 percent of positions were filled. The remaining vacancies will be filled over the medium term.

38. **Water and sanitation**. The government is discussing with stakeholders a rural sector water strategy which will set out priorities and interventions in this subsector and is preparing a similar strategy for the urban subsector. In the meantime, the government expects to increase funding. The government currently estimates that to meet its target of 100 percent availability of clean water in rural areas by 2015, it will need to invest a minimum of US$50 million a year (equivalent to U Sh 75 billion or 0.9 percent of GDP) in rehabilitation and drilling of new boreholes. Current spending levels including both donor and government funding are to the order of US$35 million, leaving a gap of US$15 million a year (equivalent to U Sh 23 billion or 0.3 percent of GDP). During this fiscal year, the government aims to use the 40 percent nominal increase in the budgeted resources for water and sanitation to raise the number of Ugandans who have access to clean water to 50 percent and 68 percent for rural and urban areas, respectively. As budget outlays increase, efficiency improvements will be central to the agenda. To this end, the government will restructure the National Water Supply and Sewerage Corporation (NWSC) which services Kampala and ten other towns. The

NWSC performance indicators are poor and its tariffs are high. The government is investigating options to subcontract NWSC's technical and commercial operations to a private operator within the framework of a medium-term contract that would provide incentives to improve performance. A decision on the appropriate approach will be made in 2000/01.

39. **Agriculture**. The government's vision for the agriculture sector is increased and sustainable agricultural production with enhanced productivity that effectively contributes to poverty eradication and ensures food security without degrading the environment. A Plan for Modernization of Agriculture (PMA) is being finalized which incorporates the results of the UPPAP. It recognizes that the most costly of the plan’s priorities is the provision of agricultural extension services. During the medium term, the government is committed to increasing spending on agricultural research and extension; further decentralizing agricultural extension; seeking cost sharing from districts, subcounties, and beneficiaries; and improving the environment for private sector investment in agriculture. The increased outlays for agriculture will focus on funding for the National Agricultural Research Organization (NARO) and the conditional grant for district-implemented agricultural extension services. In the short to medium term, the research activities of NARO will be focused on developing high yield, disease and pest resistant seeds. Other areas of enhanced activity include the development and demonstration of appropriate technologies (especially at the farm level), soil preservation and productivity, and livestock disease prevention. These activities will be built upon extensive consultation with and participation of all stakeholders and will be carried out by Zonal Agricultural Research and Outreach Centers (ZAROC), six of which are to be established in 1999/2000 under the second phase of the Agricultural Research and Training Project.

40. **Rural roads**. Outlays for the road sector are budgeted to rise by 75 percent in 1999/2000, and by an average of 17 percent a year thereafter. A total of U Sh 25 billion is provided for routine maintenance of about half of the rural feeder road network (which comprises about 21,000 kilometers). The requirements in this sector are substantial, given the past neglect of routine maintenance. It has been estimated that a modest rural roads rehabilitation program covering 2000 kilometers a year (which would imply a seven-year period to clear the estimated backlog) would cost a minimum of U Sh 23 billion a year, assuming full coverage of existing routine maintenance requirements. At present, a little more than half of these requirements are being covered. The government is currently undertaking an inventory of rural roads and is preparing a program of prioritized activities in this sector. The 1999/2000 budget provides U Sh 48 billion for the maintenance of the main road system (about 9,600 kilometers, connecting major urban centers). The government will develop a complete inventory of rural roads in 1999/2000 and prioritize their importance as the basis for a medium term investment plan for the maintenance and rehabilitation of rural roads. This investment plan will address the relative balance between rehabilitation and maintenance, as well as strengthen institutional capacity. In 1999/2000, the government will initiate a study of the institutional and financial arrangements necessary for the establishment of a fully independent Roads Agency by June 30, 2002.

D. Monitoring the Implementation and Impact of the PEAP

41. The findings of the UPPAP that were published in the 1999 Poverty Status Report (PSR) provided the analytical underpinning of the government's poverty reduction expenditure program contained in the 1999/2000 budget. The PMU in the Ministry of Finance, Planning and Economic Development is responsible for consulting with a broad set of stakeholders regarding the choice of poverty outcome indicators and intermediate output indicators that should be monitored to assess the effectiveness of the government's antipoverty policies. It is currently compiling an extended set of indicators covering traditional measurements of poverty, such as consumption levels, school enrollment, access to clean water, as well as indicators that the UPPAP revealed to be important, such as vulnerability, risk and security. Furthermore, the government is launching a National Service Delivery Survey in 1999/2000 that will establish benchmarks for delivery of key services. This survey will be repeated annually.

42. Budgetary resources to the UBS for 1999/2000 were increased substantially. The UBS has already launched the 1999/2000 household survey covering 14,000 households and the results are expected to be published early in 2001. The PMU will coordinate another participatory poverty assessment, utilizing the services of NGOs and research institutes, as an integral part of the statistical base and consultation process. Finally, the Commitment Control System and the reporting and monitoring requirements of the PAF, as well as the ongoing work to improve district budget operations, will form the foundation for monitoring expenditures under the PEAP and for ensuring that outlays are implemented as envisaged.

E. Steps for Completing the Poverty Reduction Strategy Paper

43. The actions remaining to be taken to produce the PRSP are the following:

- Review and assess the appropriateness of the targeted quantitative outcomes set forth in the PEAP in light of recent information on the characteristics of poverty;
- Establish linkages between the targeted outcomes and intermediate output indicators under the direct control or influence of government policy;
- Establish, with as much precision as possible, the fiscal costs of achieving the targeted intermediate outputs indicators;
- Ensure consistency between the fiscal costs of the poverty reduction strategy and macroeconomic stability; and

- The authorities need to draft the PRSP based on consultations with and inputs from key stakeholders, and clarify in it the role of civil society in monitoring outcomes.

The authorities consider that the PRSP will be finalized later in the year.[11]

IV. Debt Sustainability Analysis and Status of Creditor Participation

A. Update of the Debt Sustainability Analysis

44. An updated debt sustainability analysis (DSA) has been prepared jointly by the authorities and the staffs of the World Bank and IMF, to reflect additional debt relief under the enhanced HIPC Initiative, revised debt and export data as of end-June 1999, as well as new balance of payments projections and other modifications of the macroeconomic framework. Calculations of Uganda's outstanding external debt at end-June 1999 are based on loan-by-loan data provided by the authorities and creditors, as well as updated discount rates[12] and exchange rates (Table 7).

45. As a result of these changes, and after taking into account the impact of assistance provided under the original HIPC Initiative,[13] the NPV of external public and publicly guaranteed debt at end-June 1999 is now estimated at US$1,748 million,[14] compared with US$1,608 projected at the time of the first completion point document. The NPV of debt-to-exports ratio is now estimated at 240 percent at end-June 1999, compared with 207 percent

[11] The timetable and process for producing the PRSP will be among the issues discussed with the authorities during the joint Fund-Bank PRSP launching mission scheduled for January 10–25, 2000.

[12] The currency-specific discount rates used to convert projected debt service to net present value are the six-month backward looking average commercial interest reference rates (CIRRs) as of end June 1999.

[13] While not reflecting the legal reality, the assumption that non-Paris Club creditors had applied at least comparable terms on eligible debt as those granted by Paris Club bilateral creditors under Lyons terms (on the outstanding stock of debt of end-June 1998) is necessary to avoid introducing an upward bias in the calculation of NPV, which would in turn lead to nonproportional burden sharing among creditors. Legally, the unrescheduled claims of non-Paris Club bilateral creditors have remained in Uganda's outstanding stock of debt.

[14] The corresponding estimate of the nominal stock of debt at end-June 1999 is US$3,217 million (about 55 percent of GDP).

Table 7. Uganda: Exchange Rate and Discount Rate Assumptions

	Exchange Rates (currency per U.S. dollar)		Discount Rates (CIRR) 1/ (in percent)	
	End-June1997	End-June1999	End-June1997	End-June1999
Austrian Shilling	12.283	13.323	5.725	4.612
Belgian Franc	35.985	39.059	6.167	4.612
British Pound	0.601	0.635	7.357	5.822
Burundi Franc 2/	345.786	548.938	5.683	4.871
Canadian Dollar	1.381	1.472	6.300	6.020
Chinese Yuan 2/	8.291	8.279	6.705	4.871
Danish Kroner	6.639	7.204	5.942	4.807
Deutsche Mark	1.744	1.894	5.728	4.612
EURO (European Monetary Union)	n.a.	0.968	5.545	4.612
Finnish Markaa	5.189	5.757	5.648	4.612
French Franc	5.878	6.351	5.835	4.612
Iraqi Dinar 2/	0.311	30.000	6.705	4.871
Irish Pound 2/	0.663	0.763	5.683	4.612
Italian Lira	1702.050	1874.777	5.205	4.612
Japanese Yen	114.400	121.100	2.300	2.317
Kenyan Shilling 2/	54.456	72.911	5.683	4.871
Korean Won	888.100	1157.600	5.683	9.195
Kuwaiti Dinar 2/	0.302	0.307	5.683	4.871
Luxembourg Franc	35.985	39.059	6.167	4.612
Netherland Guilder	1.963	2.134	6.275	4.612
Norwegian Kroner	7.293	7.847	6.038	6.015
Portugese Escudo /2	176.042	194.115	5.683	4.871
Rwanda Franc 2/	300.171	338.063	5.683	4.871
Saudi Arabian Riyal 2/	3.745	3.745	5.683	4.871
Spanish Peseta	147.348	161.102	5.870	4.612
SDR (special drawing rights)	0.720	0.749	5.683	4.871
Swedish Kroner	7.713	8.455	6.360	4.768
Swiss Franc	1.459	1.553	4.172	3.735
Ugandan Shilling 2/	1067.490	1452.560	5.683	4.871
United Arab Emirates Dirham 2/	3.671	3.673	5.683	4.871
United States Dollar	1.000	1.000	6.705	5.995

Source: European Central Bank; IMF, International Financial Statistics; OECD; and staff estimates.

1/ Six-month average of commercial interest reference rate (CIRR) for December 1996–June 1997 and December 1998-June 1999.

2/ Discount rate based on SDR CIRR.

projected in the completion point document of the original framework of April 1998. The main factors causing the increases in the NPV of debt and in the NPV of debt-to-exports ratio are explained in Box 5.

Box 5. Uganda: Main Factors Causing the Increase in NPV of Debt and NPV of Debt-to-Exports Ratio

Lower discount rates

Discount rates have decreased considerably for most currencies from the end-June 1997 discount rates used in the original completion point document to the discount rates applicable under this new assessment, using discount rates as of end-June 1999. Given that the majority of Uganda's external debt is denominated either in U.S. dollars or SDRs, the drop in these discount rates have the most significant impact on the increase in the NPV of debt as well as in the NPV of debt-to-exports ratio. The CIRR for the U.S. dollar decreased from 6.7 percent (at end-June 1997) to 6.0 percent (at end-June 1999). The discount rate for the SDR decreased from 5.7 percent (at end-June 1997) to 4.9 percent (at end-June 1999). It is estimated that this decrease in the discount rates of the U.S. dollar and SDR, ceteris paribus, increased the NPV of debt for Uganda by US$100 million and increased the NPV of debt-to-exports ratio by about 20 percentage points.

Lower exports of goods and nonfactor services

At the time, the completion point document was prepared in February/March 1997, the three-year average of exports of goods and nonfactor services was projected to be US$776 million in 1998/99. This compares to the current estimate of US$728 million, which is due mainly to lower commodity prices (principally coffee prices) and adverse weather conditions, causing a decrease of exports of nearly 25 percent in fiscal year 1998. The subsequent decrease in the three-year average of exports (1997–99) implies ceteris paribus an increase in the NPV of debt-to-exports ratio of 14 percentage points (from 207 percent to 221 percent). Finally, the decrease in exports during fiscal year 1998 implied an increase in new borrowing, mainly from multilaterals, to avoid a financing gap in the balance of payments.

46. As shown in Table 8, multilateral debt constitutes nearly 83 percent of the total stock of debt in NPV terms, whereby IDA is by far the main creditor, with over 54 percent of the total stock of debt in NPV terms, followed by the IMF and the African Development Fund (AfDF), with about 14 and 8 percent of the total, respectively. Debt owed to Paris Club creditors amounts to about 11 percent and debt owed to non-Paris Club creditors 4 percent. The main bilateral creditor is Italy, with about 3 percent of the total stock. Both estimates of the nominal stock and the NPV of debt take into account the relief that has been agreed under the original framework of the HIPC Initiative.

47. The balance of payments projections assume a continuation of macroeconomic policies and structural reforms along the lines outlined in the updated PFP, and a generally favorable external environment (Box 6). They also incorporate projections of the cash flow of assistance under the original HIPC Initiative (Table 9). The external current account balance (excluding official transfers) would fall from about 9 percent of GDP in 1998/99 to about 4 percent in 2005/06 and continue to diminish thereafter. The current account deficit would decline mainly as a result of the rapid growth in noncoffee exports, to a lesser extent the rise in coffee export receipts, and the moderate increase in imports. While coffee prices are projected to decline until 2001, the growth of volumes will boost export receipts. After 2001, coffee prices are forecast to rise, along with the growth in export volumes. Noncoffee exports are projected to grow faster than coffee exports, reflecting the trend toward a more diversified

Table 8. Uganda: Nominal and Net Present Value (NPV) of Debt, end-June 1999 1/
(In millions of U.S. dollars, unless otherwise indicated)

	Nominal Debt	NPV of Debt	Share
Total	3,217.3	1,748.3	100.0
Multilateral	2,777.7	1,454.7	83.2
IDA	1,944.7	950.5	54.4
IMF	351.1	242.4	13.9
AfDF	311.8	148.3	8.5
IFAD	56.6	26.9	1.5
European Investment Bank	50.9	37.7	2.2
Nordic Development Fund	19.3	9.9	0.6
OPEC Fund	15.3	13.6	0.8
BADEA	12.0	10.9	0.6
AfDB	8.4	9.8	0.6
Other:	7.5	4.9	0.3
East African Development Bank	2.6	1.9	0.1
Islamic Development Bank	3.5	1.4	0.1
PTA Bank	1.2	1.3	0.1
Shelter Afrique	0.2	0.2	0.0
Bilateral	409.5	267.7	15.3
Of which: Paris Club	279.1	190.4	10.9
non-Paris Club 2/	130.5	77.4	4.4
Commercial 2/	30.1	25.8	1.5
NPV of debt-to-exports ratio before assistance (in percent)		240	
Possible assistance under the enhanced HIPC Initiative		656	
NPV of debt-to-exports ratio after assistance (in percent)		150	
Memorandum item:			
Exports of goods and nonfactor services (three-year average)		728.3	

Sources: Ugandan authorities; and staff estimates.

1/ Figures are based on reconciled end-June 1999 data, using end-June 1999 exchange rates and the six-month average Commercial Interest Reference Rate (CIRR) at end-June 1999.
2/ NPV of debt: assumes that other bilateral and commercial creditors provide treatment comparable to that by the Paris Club in 1998.

Table 9. Uganda: Balance of Payments Projections, 1998/99–2014/15
(In millions of U.S. dollars, unless otherwise indicated)

	1998/99 Prov.	1999/00 Prog.	2000/01 Proj.	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Current account	-238.5	-188.7	-195.1	-195.4	-196.7	-175.8	-171.7	-201.4	-229.5	-256.7	-280.5	-308.1	-307.1	-302.8	-294.9	-282.9	-266.2
Trade balance	-825.8	-916.8	-945.3	-1,003.4	-1,078.3	-1,146.8	-1,218.6	-1,295.3	-1,376.7	-1,463.0	-1,554.6	-1,651.6	-1,727.9	-1,806.9	-1,888.4	-1,972.5	-2,059.2
Exports, f.o.b.	549.1	583.2	664.2	742.0	813.7	912.1	989.0	1,068.5	1,154.5	1,247.4	1,347.7	1,456.2	1,573.3	1,699.9	1,836.7	1,984.4	2,144.1
Coffee	306.7	300.5	328.8	362.2	380.1	415.7	430.6	443.5	456.8	470.5	484.6	499.1	514.1	529.5	545.4	561.7	578.5
Noncoffee	242.4	282.7	335.5	379.7	433.6	496.4	558.3	625.0	697.7	776.9	863.1	957.0	1,059.2	1,170.4	1,291.3	1,422.7	1,565.5
Imports, c.i.f	1,375.0	1,500.0	1,609.5	1,745.3	1,892.0	2,058.9	2,207.6	2,363.9	2,531.2	2,710.4	2,902.3	3,107.8	3,301.3	3,506.8	3,725.1	3,957.0	4,203.3
Project-related	203.0	195.4	191.5	201.0	218.4	254.2	273.6	351.1	366.6	372.3	378.1	384.0	387.7	391.5	395.8	400.4	405.0
Other imports	1,172.0	1,304.6	1,418.1	1,544.3	1,673.6	1,804.7	1,934.0	2,012.8	2,164.6	2,338.1	2,524.2	2,723.8	2,913.6	3,115.3	3,329.2	3,556.6	3,798.3
Nonfactor services (net)	-279.2	-288.0	-287.0	-299.6	-305.1	-310.1	-315.6	-336.5	-337.8	-334.8	-330.6	-324.9	-309.4	-291.1	-269.8	-245.1	-216.5
Factor services (net)	-15.0	-15.1	-12.9	-14.0	-13.9	-13.4	-11.9	-2.0	-3.8	-6.5	-10.1	-16.8	-24.4	-32.2	-40.6	-49.5	-59.0
Net interest	4.7	8.7	12.1	13.1	15.7	18.7	22.6	36.0	37.9	39.4	40.4	38.7	36.3	33.9	31.6	29.4	27.1
Net dividends and distributed earnings	-19.6	-23.8	-24.9	-27.1	-29.6	-32.2	-34.5	-38.0	-41.7	-45.9	-50.5	-55.5	-60.6	-66.2	-72.2	-78.8	-86.0
Transfers	881.5	1,031.3	1,050.1	1,121.6	1,200.6	1,294.5	1,374.3	1,432.3	1,488.8	1,547.6	1,614.8	1,685.3	1,754.6	1,827.5	1,903.9	1,984.2	2,068.5
Private transfers 1/	605.0	641.4	706.7	774.9	836.5	913.5	979.5	1,025.7	1,074.0	1,124.7	1,183.4	1,245.3	1,310.4	1,378.9	1,451.0	1,526.8	1,606.6
Official transfers	276.5	389.9	343.4	346.7	364.1	381.0	394.8	406.7	414.7	423.0	431.4	440.0	444.3	448.6	453.0	457.4	461.9
Import support	73.5	158.9	117.1	109.1	100.0	80.0	80.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project support	203.0	230.9	226.3	237.6	264.1	301.0	314.8	396.7	414.7	423.0	431.4	440.0	444.3	448.6	453.0	457.4	461.9
Capital account	201.6	235.9	230.0	255.3	257.3	267.6	280.7	293.1	292.9	302.2	253.8	258.8	252.3	246.8	235.2	220.8	222.3
Official (net)	191.3	223.1	188.0	212.5	210.8	215.3	215.9	227.7	226.8	235.5	186.5	190.8	183.6	177.4	165.1	150.1	150.9
Disbursements	266.8	300.3	267.2	296.8	302.6	307.5	312.4	315.5	318.5	321.6	324.8	328.0	331.2	334.4	338.7	343.4	348.1
BOP support	63.8	140.5	110.6	132.3	130.0	100.0	80.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project support	203.0	159.8	156.7	164.5	172.6	207.5	232.4	305.5	318.5	321.6	324.8	328.0	331.2	334.4	338.7	343.4	348.1
Amortization due	75.5	77.2	79.2	84.3	91.8	92.2	96.5	87.8	91.7	86.1	138.3	137.2	147.5	157.0	173.5	193.3	197.2
Private capital (net) 2/	10.2	12.8	42.0	42.8	46.5	52.4	64.8	65.4	66.1	66.7	67.4	68.0	68.7	69.3	70.0	70.7	71.4
Overall balance	-36.9	47.2	34.9	59.9	60.7	91.9	109.1	91.7	63.4	45.5	-26.6	-49.3	-54.8	-56.0	-59.7	-62.1	-43.9
Financing	36.9	-47.2	-34.9	-59.9	-60.7	-91.9	-109.1	-91.7	-63.4	-45.5	26.6	49.3	54.8	56.0	59.7	62.1	43.9
Central Bank reserves (- = increase)	-24.4	-102.5	-95.9	-117.6	-116.6	-131.2	-139.8	-150.4	-117.8	-93.3	-17.0	4.6	10.9	13.2	16.8	19.1	0.6
Gross reserve change	17.9	-99.2	-60.3	-74.7	-71.8	-77.9	-88.2	-101.3	-79.3	-67.6	-2.3	13.3	12.2	13.2	16.8	19.1	0.6
IMF (net)	-35.7	-3.3	-35.6	-42.9	-44.8	-53.3	-51.6	-49.1	-38.5	-25.7	-14.7	-8.7	-1.3	0.0	0.0	0.0	0.0
Other	-6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (net)	-43.1	-241.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 3/	104.4	296.8	61.0	57.7	55.9	39.3	30.7	29.4	27.2	23.9	21.8	22.4	21.9	21.4	21.4	21.5	21.6
Toward arrears reduction	59.4	232.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities	0.0	22.0	20.9	21.3	21.5	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Original HIPC assistance	45.0	42.8	41.6	38.0	35.9	27.6	25.6	24.2	22.1	20.2	18.1	18.7	18.2	17.6	17.6	17.7	17.7
IMF	15.4	12.9	9.9	7.3	5.5	8.0	7.0	7.8	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IDA	13.9	16.7	19.7	19.8	19.7	8.1	8.0	8.0	7.9	9.4	9.3	9.2	9.2	9.0	9.0	8.9	8.8
Other	15.8	13.2	12.1	10.9	10.6	11.5	10.5	8.4	6.9	10.8	8.8	9.4	9.0	8.5	8.6	8.7	8.9
Memorandum items:																	
Foreign exchange reserves 4/	4.8	5.0	5.0	5.0	5.0	4.9	5.0	5.0	5.0	4.9	4.6	4.2	3.9	3.7	3.4	3.2	3.0
Exports of goods and nonfactor services (average of 3 years)	728.3	713.3	801.3	894.6	1,006.5	1,126.4	1,250.2	1,379.5	1,507.0	1,643.9	1,792.2	1,952.9	2,127.1	2,315.7	2,520.1	2,741.5	2,981.2
Current account-to-GDP ratio																	
Including official transfers	-4.0	-3.0	-2.8	-2.5	-2.2	-1.8	-1.6	-1.7	-1.7	-1.8	-1.7	-1.7	-1.6	-1.4	-1.3	-1.1	-1.0
Excluding official transfers	-8.9	-9.5	-7.9	-7.0	-6.5	-5.8	-5.3	-3.6	-3.5	-3.3	-3.2	-3.0	-2.8	-2.5	-2.3	-2.1	-1.9
NPV of debt (before enhanced HIPC)	1,748.3	1,864.2	1,961.5	2,060.9	2,157.0	2,234.9	2,310.2	2,387.8	2,475.5	2,570.2	2,676.0	2,792.6	2,908.4	3,023.4	3,133.1	3,239.1	3,341.2
NPV debt-to-exports ratio	240.1	261.3	244.8	230.4	214.3	198.4	184.8	173.1	164.3	156.4	149.3	143.0	136.7	130.6	124.3	118.2	112.1

Sources: Ugandan authorities; and staff estimates.

1/ The authorities have made preliminary estimates of the foreign direct investment of private transfers. These estimates are currently being refined based on the recommendations of recent STA technical assistan
2/ Includes private short-term capital flows, errors, and omissions
3/ For 1996/97 and beyond, incorporate effects of the Paris Club stock-of-debt operations, assistance under the original HIPC Initiative framework, and assumptions as regards to the treatment of arrears
4/ In months of imports of goods and services.

economy. By the end of the projection period, noncoffee exports will account for more than three-quarters of total exports, against half in 1998/99. By contrast, the rate of growth of imports is expected to remain close to, or slightly above, growth of real GDP. The growth of foreign direct investment, in an increasingly diversified economy, is likely to compensate Uganda's reduced reliance on official public financing.

Box 6. Assumptions Used in the Debt Sustainability Analysis (DSA)

Annual average real GDP growth of 7 percent in 1999/00–2002, 6.5 percent in 2002/03, 6 percent in 2003/04, 5.5 percent in 2004/05 and 5 percent thereafter.

Real export growth is expected to average about 6–7 percent a year through the projection period. Non coffee exports are projected to grow on average by 10 percent a year in real terms over the period, while prices are assumed to increase roughly in line with world inflation. Based on the assumption of the IMF's World Economic Outlook (WEO) and the Commodities Division of the World Bank, coffee prices are projected to decline until 2001 but rise again thereafter (volumes are projected to grow moderately by about 2 percent a year).

Import growth is projected to remain at a rate close to, or slightly above, the growth rate of real GDP. The income elasticity of imports is assumed to stabilize on average at around 1.05 during the projection period.

Private transfers are projected to increase at an average rate of about 6 percent a year in real terms until 2004/05 and to slowdown in following years. These projections assume that most of these transfers constitute (unidentified) foreign direct investment and other capital inflows. 1/

Inflows of donors assistance are projected to grow by some 30 percent in 1999/2000 to offset the exceptionally low level of the previous years, but in general will remain constant in real terms throughout the projection period; that assistance is therefore expected to gradually decline as a share of GDP as official financing is offset by the growing inflows of private capital. General balance of payment support is also assumed to be phased out over time.

New financing (borrowing) is likely to continue to be highly concessional, with about 80 percent contracted on IDA terms (40-year maturity, 10-year grace period, and 0.75 interest rate), and the remaining 20 percent on less favorable but still highly concessional terms (23-year maturity, 6-year grace period, and 2 percent interest rate).

1/ There is no comprehensive reporting of foreign direct investment (FDI) flows in the Ugandan balance-of-payments but recent surveys indicate that a significant proportion of flows currently recorded as private transfers are in fact unidentified FDI and other capital flows.

48. The overall balance of payments would remain in surplus through 2007/08 before turning to a deficit as scheduled amortization payments rise and international reserve coverage begins a downward trend. Uganda is expected to generate balance of payments surpluses that would be sufficient to maintain a level of (gross) international reserves equivalent to about five months of imports of goods and nonfactor services until 2006/07. Import coverage would then taper off gradually to about 3 months by 2014/15, consistent with the increased diversification of exports.

49. The main conclusion of the DSA, excluding potential relief under the enhanced initiative, is that the NPV of Uganda's debt-to-exports ratio would fall below 150 percent in about 10 years (Table 10). The fiscal burden of debt would similarly fall over time, with the NPV of debt-to-revenues dropping from 242 percent in 1998/99 to 109 percent in 2009/10.

Table 10. Uganda: Key Public External Debt-Sustainability Indicators, 1998/99–2018/2019

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
NPV of debt-to-exports ratio 1/																					
Before HIPC Initiative assistance 2/	284.9	308.3	291.8	278.0	262.3	248.6	233.2	225.0	218.7	211.7	204.2	196.3	188.3	180.6	173.0	165.4	157.7	...	...	...	...
After original assistance	240.1	261.3	244.8	230.4	214.3	198.4	184.8	173.1	164.3	156.4	149.3	143.0	136.7	130.8	125.0	119.5	113.9	111.6	106.1	97.1	87.1
After proposed enhanced assistance	...	138.0	127.9	116.6	108.8	102.0	96.1	90.5	84.4	78.4	72.7	67.6	63.0	59.2	55.8	52.4	49.0	45.3	41.7	37.9	34.2
NPV of debt-to-revenue ratio																					
Before HIPC Initiative assistance 2/	286.6	290.6	264.3	240.8	220.1	201.3	188.8	180.9	173.1	164.7	156.0	149.8	143.5	137.0	130.5	123.7	116.8	...	...	...	...
After original assistance	241.5	246.3	221.7	199.6	179.9	160.7	149.6	139.2	130.0	121.6	114.1	109.1	104.2	99.3	94.3	89.4	84.4	81.9	77.1	69.8	62.0
After proposed enhanced assistance	...	130.1	115.8	101.0	91.3	82.6	77.8	72.7	66.8	61.0	55.5	51.6	48.0	44.9	42.1	39.2	36.3	33.3	30.3	27.3	24.3
NPV of debt-to-GDP ratio																					
Before HIPC Initiative assistance 2/	35.8	36.1	34.2	32.4	30.8	29.2	27.8	27.1	26.4	25.5	24.6	23.6	22.6	21.6	20.6	19.5	18.4	...	...	...	...
After original assistance	30.2	30.6	28.7	26.9	25.1	23.3	22.1	20.9	19.8	18.8	18.0	17.2	16.4	15.6	14.9	14.1	13.3	12.9	12.1	11.0	9.8
After proposed enhanced assistance	...	16.2	15.0	13.6	12.8	12.0	11.5	10.9	10.2	9.5	8.7	8.1	7.6	7.1	6.6	6.2	5.7	5.2	4.8	4.3	3.8
Debt-service ratio 1/																					
Before HIPC Initiative assistance 2/	22.4	23.4	18.7	17.5	18.1	16.1	14.6	12.9	12.9	11.8	11.5	11.1	11.1	11.1	10.8	11.1	11.0	10.5	9.9	9.2	8.7
After original assistance	14.4	18.1	12.3	11.2	10.6	10.5	11.5	11.1	10.5	9.4	8.6	7.7	7.0	6.9	6.7	6.7	6.7	6.6	6.4	6.1	5.9
After proposed enhanced assistance	...	11.1	6.0	5.7	5.6	6.0	7.5	7.5	7.2	6.4	5.8	5.1	4.7	4.7	4.7	4.9	5.0	5.0	4.9	4.8	4.7
Debt service-to-revenue ratio																					
Before HIPC Initiative assistance 2/	22.5	22.0	16.9	15.2	15.2	13.1	11.8	10.4	10.2	9.2	8.8	8.5	8.5	8.4	8.2	8.3	8.1	7.7	7.2	6.6	6.2
After original assistance	14.5	17.1	11.1	9.7	8.9	8.5	9.3	9.0	8.3	7.3	6.6	5.9	5.3	5.2	5.1	5.0	4.9	4.8	4.6	4.4	4.2
After proposed enhanced assistance	...	10.5	5.5	4.9	4.7	4.9	6.1	6.0	5.7	5.0	4.5	3.9	3.5	3.6	3.6	3.7	3.7	3.7	3.6	3.4	3.3

Sources: Ugandan authorities; and staff calculations.

1/ In percent of the three-year moving average of exports of goods and nonfactor services.

2/ Based on NPV calculations made at the time of the first decision point (April 1997).

The debt-service ratio would fall from about 15 percent in 1998/99 to less than 5 percent in 2009/10 and remain below 5 percent thereafter.

B. Status of Creditor Participation

Assistance under the original HIPC Initiative

50. Consistent with proportional burden sharing, the US$347 million in NPV debt relief granted under the original HIPC Initiative was distributed US$274 million from multilateral creditors and US$73 million from bilateral creditors. The annual amount of cashflow relief was estimated to be slightly more than US$40 million until 2000/01, between US$30 and US$40 million during the period 2001/02–2006/07, and US$22 million thereafter. The amount of cash-flow relief actually provided under the original HIPC Initiative in 1998/99 was about US$45 million.

51. **Multilateral assistance.** Of the US$274 million of assistance to be provided by multilateral creditors under the original HIPC framework agreements have been reached for assistance amounting to more than US$272 million in NPV terms as of November 1, 1999, of which IDA is delivering US$160 million and the IMF US$69 million. The modalities of multilateral assistance under the original framework are summarized in Box 7. Uganda has settled nearly all outstanding arrears to multilateral creditors in the context of the original framework of the HIPC Initiative. As of end-June 1999, the only outstanding arrears are those owed to the East African Development Bank and PTA Bank. Discussions are on-going to find a solution whereby these institutions can also deliver their share of the debt relief.

Box 7. Modalities of Multilateral Assistance Under the Original HIPC Initiative

IDA	US$160 million delivered in NPV terms through three instruments: (i) a US$75 million grant representing the first tranche of the Education Sector Adjustment Credit (ESAC); (ii) purchase and subsequent cancellation by the HIPC Trust Fund IDA debt, amounting to US$204 million, starting with the oldest credits outstanding; and (iii) servicing a portion of debt service owed to IDA through 2003.
IMF	US$68.9 million allocation to ESAF/HIPC Trust, to be used to meet Uganda's debt service to the IMF under an agreed schedule.
AfDB/AfDF	US$21.8 million allocation to HIPC Trust Fund, used to repurchase AfDB debt, which is the least concessional. Five of the six loans were repurchased completely, and the sixth was repurchased partially.
EIB/EDF	US$6.7 million of an internal EU source of funds are used to prepay loans.
IFAD	US$5.7 million allocation to IFAD’s self-administered HIPC Trust Fund, which provides 100 percent debt-service relief to Uganda until the contribution is exhausted.
BADEA	US$3.4 million provided through a concessional rescheduling of arrears.
IsDB	US$2.3 million provided through a new concessional loan which replaces all existing IsDB loans.
OPEC Fund	US$2.2 million provided through a new concessional loan, which can be used to prepay older less concessional loans.
NDF	US$1.0 million allocated to HIPC Trust Fund, which covers 100 percent of debt service to the NDF as it falls due until the contribution is exhausted.

52. **Bilateral assistance.** Since the first completion point, Uganda has signed up to now four bilateral agreements with its Paris Club creditors (France, Israel, United Kingdom, and the United States) and the signature of that with Italy is imminent. However, with the exceptions of Tanzania and Rwanda,[15] Uganda has not been able to reschedule its arrears and current maturities with non-Paris Club bilateral creditors. The Ugandan authorities made proposals to reschedule arrears with an assumed reduction in the face value on terms at least comparable to those granted by the Paris Club, but most creditors have responded negatively to such demands. This general issue is to be discussed by the World Bank and IMF Boards on the basis of a joint Bank/IMF paper. As of end-June 1999, the amount of Uganda's nonrescheduled arrears to non-Paris Club creditors was US$251 million, that is, about 8 percent of total nominal debt as of end-June 1999, and 90 percent of the total amount of outstanding arrears (the rest being debt owed to private commercial creditors). A summary of Uganda's debt owed to non-Paris Club creditors is presented in Table 11.

Assistance under the enhanced HIPC Initiative

53. Based on the updated DSA presented above, it is estimated at this stage that additional debt relief under the enhanced HIPC Initiative necessary to bring Uganda's NPV of debt-to-exports ratio to 150 percent amounts to US$656 million in NPV terms. Based on proportional burden sharing of NPV of debt outstanding at end-June 1999, the multilateral contribution would be US$546 million and that of bilateral and private creditors would be US$110 million (Table 12). This would involve assistance by all creditors equivalent to 37.5 percent of their claims remaining after assistance under the original framework. A detailed breakdown of the contributions by each main multilateral creditor would be based on their shares of the NPV of multilateral debt as at end-June 1999.

54. **Enhanced multilateral assistance.** IDA's enhanced assistance of US$357 million in NPV terms is proposed to be delivered over the next 20 years, by providing 54 percent relief of Uganda's debt service falling due to IDA (between February 2000 and June 2019) on disbursed and outstanding IDA credits at end-June 1999.[16] The impact of IDA's assistance

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[15] Debt relief from Tanzania was secured through a debt buy-back operation.

[16] Proposed guidelines for delivering IDA's debt relief under the enhanced HIPC Initiative are set forth in the World Bank's Board paper IDA/R2000-4 (1/10/2000) entitled "Heavily Indebted Poor Countries (HIPC) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework."

Table 11. Uganda: Bilateral and Commercial Creditors, end-June 1999 1/
(In millions of U.S. dollars)

	Legal situation Nominal stock	NPV	After comparable treatment to that agreed with the Paris Club in 1998 2/ Nominal stock	NPV
Paris Club creditors	286.5	227.1	279.1	190.4
Austria	25.9	18.1	25.9	18.1
Finland	5.3	2.9	5.3	2.9
France	26.5	22.4	19.4	17.8
Germany	0.9	1.1	0.9	1.1
Israel	4.8	5.2	4.8	5.2
Italy	118.6	86.2	118.2	54.1
Japan	51.6	44.0	51.6	44.0
Norway	0.1	0.1	0.1	0.1
Spain	42.6	36.1	42.6	36.1
Sweden	0.0	0.0	0.0	0.0
United Kingdom	9.9	10.7	9.9	10.7
United States	0.2	0.1	0.2	0.1
Non-Paris Club creditors	357.3	284.8	130.5	77.4
Abu Dhabi	4.4	4.4	0.9	0.9
Burundi	1.6	1.6	0.3	0.3
China	38.2	28.1	23.1	7.4
India	65.8	64.2	13.2	9.8
Iraq	0.0	0.0	0.0	0.0
Kuwait	29.5	25.6	27.1	17.7
Lybia	114.0	111.2	34.4	21.8
Nigeria	11.1	10.8	2.2	2.4
North Korea	11.2	10.4	2.5	0.8
Pakistan	3.2	3.2	3.2	0.7
Rwanda	7.9	7.9	1.6	1.5
Saudi Arabia	8.8	6.1	8.8	4.1
South Korea	4.7	2.9	4.7	1.5
Tanzania	56.9	8.5	8.5	8.5
Commercial creditors	41.6	43.3	30.1	25.8
Italy	0.3	0.3	0.3	0.3
Panama	0.1	0.1	0.0	0.0
Spain	1.6	1.6	1.6	1.4
Sweden	3.5	4.5	3.5	4.5
United Kingdom	30.8	31.5	17.3	13.3
Yugoslavia	7.3	7.3	7.3	6.4

Sources: Ugandan authorities; and staff estimates.

1/ Includes commercial loans.

2/ Involving an 80 percent NPV reduction on eligible debt.

Table 12. Uganda: Estimated Assistance at Second Decision Point in 2000 1/
(In millions of U.S. dollars in NPV terms at end-June 1999, unless otherwise indicated)

	Total (US$ m.)	Multilaterals (US$ m.)	Bilateral and Commercial (US$ m.)	Common Reduction Factor (In percent)	Required NPV Debt Reduction on Comparable Treatment of Overall Exposure
Debt relief baseline scenario	656	546	110	37.51	
Memorandum items:					
NPV of debt	1,748.3				
Multilateral institutions	1,454.7				
Bilateral and commercials	294				
Paris Club	190				87.5
Of which: pre-cutoff-non-ODA debt	63				102.8
Non-Paris Club bilateral creditors	77				87.5
Of which: pre-cutoff-non-ODA debt	65				91.8
Commercial creditors	26				
Three-year export average	728				
NPV of debt-to-exports ratio (in percent)	240				

Sources: Ugandan authorities; and staff estimates.

1/ Assumes a proportional burden-sharing approach after application of Lyon terms.

under the original and enhanced HIPC frameworks is further illustrated in Table 13. It is estimated that savings on IDA debt service under the enhanced framework would amount to about US$629 million. Together with the debt-service reduction obtained under the original framework, total savings on IDA debt service is estimated at US$983 million over time. In this context, HIPC debt relief reduces, by about US$35 million or by two-thirds, the original annual debt service due on IDA credits during the 2000–10 period.

55. Assistance from the IMF would be delivered in a similar fashion as for the original HIPC Initiative, i.e., through a grant deposited into an escrow account at the completion point (Table 14). The grant, plus accrued interest, would be used to cover part of Uganda's debt service to the IMF under an agreed schedule. The objective of this schedule will be to help bring the debt-service burden down to the agreed target and to smooth the debt service, including any humps, either to the IMF and/or generally. Since Uganda's debt service both to the IMF and overall is actually smooth, and Uganda has already benefited from frontloaded assistance, it is proposed that in this case additional IMF assistance would be spread proportionately over the life of Uganda's current obligations to the IMF, which would result in a frontloaded overall pattern of assistance.

56. According to present estimates, and consistent with proportional burden sharing, IMF assistance under the enhanced framework would amount to the SDR equivalent of some US$91 million, on top of SDR equivalent of US$69 million already provided under the original framework (for a total IMF assistance of US$160 million under the HIPC framework). The IMF's contribution to the HIPC Initiative, both under the original and enhanced framework would reduce Uganda's debt service to the IMF on average by about two-thirds, for obligations outstanding as of June 1999. It is likely that other multilateral creditors will provide their assistance under the enhanced framework similar to the modalities used under the original framework. For the period 2000–18, the projected time paths of Uganda's debt service to multilaterals before and after debt relief (under the original and enhanced frameworks) are shown in Figures 1 and 2.

57. **Enhanced bilateral assistance**. Participation of all bilateral creditors is crucial to provide full relief to Uganda from the second completion point onward, and to secure equitable burden sharing. The Paris Club has already stated its intention to meet expeditiously to discuss further topping up of assistance, beyond the stock-of-debt operation granted after the first completion point. Participation of other creditors, in particular those which have not yet provided relief under the original framework, will need to be discussed in the context of the enhanced framework.

58. **Reconciliation of debt data.** If Uganda is found by the Executive Boards of IDA and the IMF to be eligible for assistance under the enhanced HIPC Initiative, it would have to return to some of its creditors to verify its outstanding stock of debt as of June 1999, and wherever needed, engage in a full reconciliation exercise. Such reconciliation should hopefully proceed rapidly as it was largely completed with multilateral creditors during the

Table 13. Uganda: Estimated Delivery of IDA Assistance Under the HIPC Initiative, FY2000-2020 1/
(In millions of U.S. dollars, unless otherwise indicated)

FY		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Projected debt service to IDA before original assistance		33.1	38.8	44.8	52.5	62.4	71.7	73.2	73.5	92.3	92.7	95.5	99.8	101.9	105.6	105.9	104.3	113.5	115.7	108.7	112.1	112.5
Original assistance																						
IDA debt service reduction		16.7	19.7	19.8	19.7	8.1	8.0	8.0	7.9	9.4	9.3	9.2	9.2	9.0	9.0	8.9	8.8	8.7	8.7	7.9	7.8	7.6
Projected remaining debt service to IDA		15.8	17.9	22.6	26.4	46.2	53.5	54.5	54.3	58.3	60.8	63.7	67.6	71.9	75.4	78.0	81.0	81.2	80.8	81.1	81.6	81.1
Percentage reduction of debt service		*50.6%*	*50.6%*	*44.2%*	*37.6%*	*13.0%*	*11.2%*	*10.9%*	*10.8%*	*10.2%*	*10.0%*	*9.7%*	*9.2%*	*8.9%*	*8.5%*	*8.4%*	*8.4%*	*7.7%*	*7.5%*	*7.3%*	*7.0%*	*6.7%*
Enhanced assistance																						
Additional IDA debt service reduction 2/		4.3	9.7	12.2	14.3	24.9	28.9	29.4	29.3	31.5	32.9	34.4	36.5	38.9	40.7	42.1	43.8	43.8	43.6	43.8	44.1	0.0
Projected remaining debt service to IDA		11.6	8.2	10.4	12.2	21.3	24.6	25.1	25.0	26.8	28.0	29.3	31.1	33.1	34.7	35.9	37.3	37.3	37.2	37.3	37.5	81.1
Percentage reduction of debt service 2/ 3/		*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*0.0%*
Total assistance under the original and enhanced HIPC Initiative frameworks																						
Total IDA debt-service reduction		21.0	29.3	32.0	34.0	33.1	36.9	37.4	37.3	40.9	42.1	43.6	45.7	47.9	49.7	51.1	52.5	52.6	52.3	51.7	51.9	7.6
Total projected percentage reduction of debt service		*63.5%*	*75.5%*	*71.4%*	*64.8%*	*53.0%*	*51.5%*	*51.1%*	*50.7%*	*44.3%*	*45.4%*	*45.7%*	*45.8%*	*47.0%*	*47.1%*	*48.2%*	*50.4%*	*46.3%*	*45.2%*	*47.6%*	*46.3%*	*6.7%*
Memorandum item:																						
HIPC Initiative assistance in NPV terms																						
under original framework	160																					
under enhanced framework	357																					

Notes:

1/ Assistance under the original HIPC framework will be provided until 2038.

2/ For FY2000, the 54% debt service reduction applies only to the remaining debt service due between February 1-June 30, 2000, which is estimated to be US$7.92 million.

3/ The 54% debt service reductions (on debt service as it comes due) are calculated using the end-June 1999 SDR-US$ exchange rate.

Table 14. Uganda: Estimates of IMF Assistance Under the HIPC Initiative, 1999/2000–2008/09 1/ 2/

(In millions of SDRs, unless otherwise indicated)

		1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Amount of assistance, original framework 3/	**68.9**										
Proposed assistance and delivery profile, enhanced framework 4/	**91.0**	7.2%	16.8%	11.9%	12.6%	17.4%	15.4%	10.8%	5.4%	2.2%	0.3%
Debt service due to IMF 5/		17.3	36.0	32.0	32.9	38.4	34.3	27.1	18.6	9.4	1.7
Of which: principal		15.1	34.9	31.0	32.1	37.8	33.8	26.8	18.4	9.4	1.7
IMF Assistance under initial HIPC (without interest)		3.1	6.7	6.2	5.6	4.6	4.1	3.1	2.1	0.0	0.0
IMF assistance under initial framework 6/		3.4	8.3	7.5	6.7	5.4	4.6	3.4	2.4	0.0	0.0
Proposed assistance under enhanced HIPC (without interest)		6.0	14.1	9.9	10.6	14.6	12.8	9.0	4.5	1.9	0.2
Proposed assistance under enhanced framework 7/		6.0	15.5	11.5	12.8	18.5	17.1	12.6	6.6	2.9	0.4
Net remaining obligations to IMF		7.9	12.2	13.0	13.4	14.5	12.6	11.1	9.6	6.5	1.3
Proportion of debt service due, covered by total HIPC Initiative assistance		54.4%	66.1%	59.3%	59.2%	62.2%	63.3%	59.0%	48.3%	30.7%	22.2%

1/ This table is based on assumptions of immediate assistance in the case of either a collapse of the decision and completion points, or of full interim relief under a separation of these two points. Alternative scenarios would be provided for other options, in particular the granting of relief as of the beginning of the next fiscal year (2000/01)

2/ Uganda's fiscal year, beginning July 1. Data for fiscal year 1999/2000 throughout this table take account of repayments and assistance due as of January 28, 2000, tentative date of the IMF Board consideration of Uganda's eligibility for enhanced assistance

3/ In millions of U.S. dollars (NPV terms). The SDR equivalent was SDR 51.5 million

4/ In millions of U.S. dollars (NPV terms). The SDR equivalent is SDR 68.1 million converted at SDR/U.S. dollar exchange rate of 0.749 for June 1999. The delivery profile is based on the US$91 million NPV reduction.

5/ Principal and interest on ESAF loans.

6/ As estimated at the first completion point (April 1998) (in nominal terms).

7/ Nominal terms. Includes interest assumed to be generated by the amounts in escrow earn at a rate of return of 4.9 percent (SDR terms). Actual interest earnings may be higher or lower. Interest earned will be accumulated through the fiscal year, except in the final fiscal year, when it will be used toward payment of the final repayment obligation falling due that year

Figure 1. Multilateral Debt Service
Before and After HIPC Initiative Assistance, 2000/19

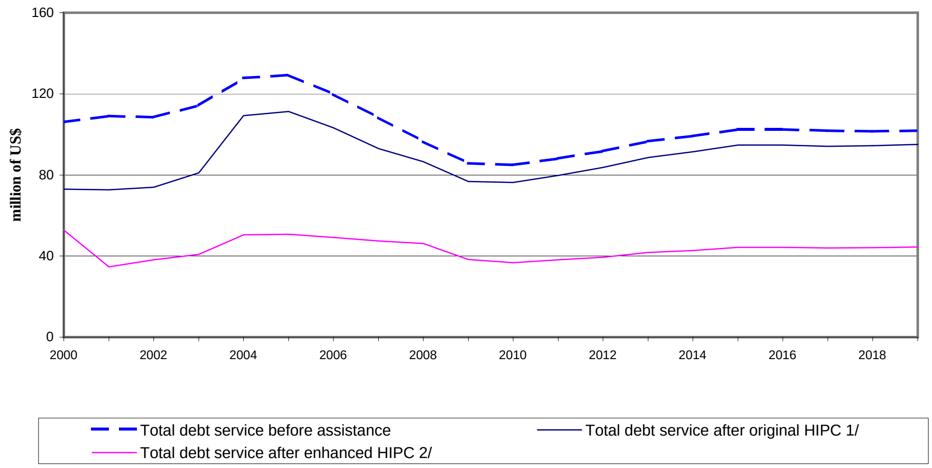
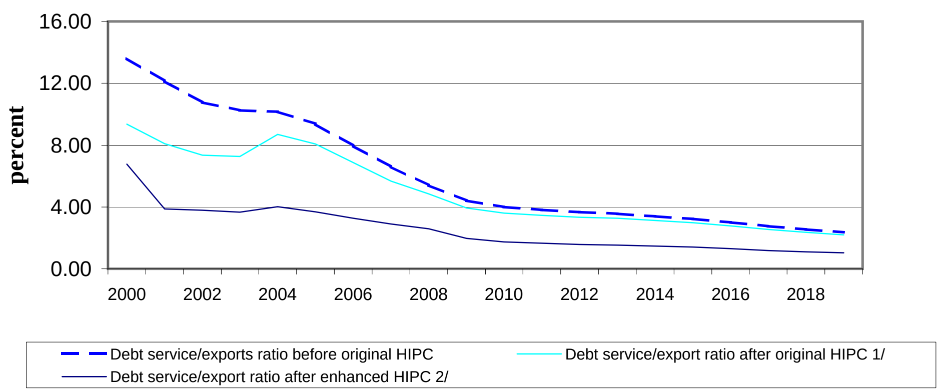


Figure 2. Multilateral Debt Service-to-Exports Ratio
Before and After HIPC Initiative Assistance, 2000/19



Source: Staff estimates based on disbursed and outstanding debt at end-June 1999.

1/ The chart understates the full savings in multilateral debt service from HIPC-1 for two reasons:
a) Debt service savings before FY2000 are excluded due to data constraints. However, given that the bulk of multilateral assistance has been front-loaded, considerable debt service savings are to be assumed.
b) The chart does not reflect the assistance provided by the clearance/rescheduling of arrears.

2) It is assumed that enhanced HIPC assistance will be provided as outlined above for IDA and the IMF, and by using a 50% debt service reduction for all other MDBs until their NPV assistance has been provided.

update of the DSA (with the exception of PTA Bank and the East African Development Bank), and is well advanced with bilateral creditors in the context of the original framework. In any case, it should not delay the delivery of possible enhanced assistance since a critical mass of such reconciliation has already been achieved. The BOU has already initiated the process by sending requests for financial statements to some of Uganda's creditors.

C. Impact of Enhanced HIPC Assistance

59. As implied by the above analysis, Uganda's external debt and debt-service burden would be substantially reduced with the delivery of enhanced assistance. Additional assistance under the enhanced HIPC Initiative, based on a reduction of the NPV of debt as at end-June 1999, would further reduce the debt service annually by an estimated US$40 million to US$50 million on average—depending on the effective timing of assistance provided by creditors—that is between one third and one half of debt service currently due. Such relief would add to the amounts under the original HIPC Initiative (an estimated US$42 million in 1999/2000) and other rescheduling agreements (some US$20 million annually of relief on debt service due in the next three to four years). When aggregated, total assistance to be received under the HIPC Initiative (original and enhanced frameworks) would relieve Uganda from between two-thirds and three-quarters of its debt service due in the coming years, depending on the delivery profile.

60. The projected debt service-to-exports ratio for 1999/2000 would decline from its current level of 18 percent to about 11 percent, and remain below that level throughout the next 30 years. The expected debt relief of US$656 million in NPV terms would amount to an estimated total savings of debt-service payments of about US$1.3 billion during the same period. The fiscal burden of external debt service would also fall very significantly. The ratio of debt service to revenue in 1999/2000, already projected to be relatively low at about 17 percent, would be reduced to about 11 percent immediately, 6 percent in 2000/01, and would continue to decline thereafter.

61. Assistance under the enhanced HIPC Initiative will free significant budgetary resources for Uganda's poverty reduction strategy and thus provide a greater momentum toward the achievement of the development goals set out in the PEAP. Resources made available under the enhanced HIPC Initiative in the first three years would, on average, be equivalent to about 0.7 percent of GDP and 10 percent of currently projected social expenditures. These resources would be channeled through the PAF and allocated among the seven key ministries discussed above. The precise allocation of additional resources is being determined in the context of the medium-term expenditure framework for 2000/01–2002/03, which was initiated in October 1999 and would reflect the results of the PRSP. Assistance under the enhanced HIPC Initiative would also amount to about 15 percent of base money, on average, during the first three years and would need to be carefully managed to prevent excessive money growth.

V. Conclusions

62. The staffs of the IMF and IDA are of the view that Uganda's economic performance since reaching the completion point under the original HIPC Initiative has been satisfactory and that the authorities have made substantive progress in developing and implementing a poverty reduction strategy with a high degree of civic participation. The government published the Poverty Eradication Action Plan in June 1997 following nearly two years of consultations with stakeholders, including members of civil society, and has been implementing it for 2½ years. It has implemented policies that have contributed to sustained high rates of broad-based economic growth in the context of macroeconomic stability and external viability. It has developed a comprehensive understanding of the nature and locus of poverty, including an intensive and extensive understanding of the multidimensional aspects of the problem. It has set medium- and long-term goals for poverty reduction and social development. It has made significant progress toward developing its poverty reduction strategy in the context of an extensive and intensive participatory framework involving local communities, donors, and, importantly, the poor themselves. All of these achievements are reflected in the government's PEAP, the 1999 PSR, as well as the annual publications of the Background to the Budget, which set forth the government's policy priorities and basis for its expenditure programs. The government's goals, strategies and policies are reflected in its medium-term macroeconomic and budget framework, which is discussed extensively (twice a year) with representatives of the donor community, the private sector and NGOs in open and transparent fora.

63. The staffs of the IMF and IDA are also of the view that the authorities have made substantive progress in identifying and addressing weaknesses in their poverty reduction strategy. Based on a detailed analysis of the nature, causes, and geographic and occupational dispersion of poverty, the authorities have oriented their growth policies toward rural development in general, and agriculture in particular, by allocating proportionately more public resources toward agricultural extension services and the development of rural road systems. The development of sector-wide approaches (SWAP) for key social services, with technical and financial support from IDA, along with a strengthening of the decentralization process, are addressing the major implementation constraints identified above that have limited the effectiveness of public expenditures, particularly in the areas of health (e.g., delivery of services, staffing levels) and education (e.g., number of classrooms and qualified teachers). The staffs of the IMF and IDA are also of the view that taking the remaining steps necessary to complete the PRSP as outlined in paragraph 43 above would substantially strengthen the government's poverty reduction strategy, and will be necessary to fully integrate the poverty reduction strategy with the government's medium-term macroeconomic framework.

64. In addition to the measures needed to complete the PRSP, the continued implementation of sound macroeconomic policies and institutional and structural reforms will be crucial to sustaining a high rate of economic growth, which underpins the authorities' poverty reduction strategy, and to improve the effectiveness, transparency, and accountability

of public expenditures. A strong and sound financial system in which the public has confidence will be necessary to sustain economic growth, and this can be achieved only through the rigorous enforcement of banking regulations. Similarly, well functioning power and telecommunications systems, with substantial private participation, will also be a requirement. In this regard, the advanced stage of preparing Uganda Telecommunications Limited for sale is welcome, but the staff is of the view that progress with regard to the power sector will need to be accelerated if the government is to achieve its social objectives. Given the central role of districts in implementing the poverty reduction strategy, a rapid implementation of the measures to increase district capacity in the areas of planning, programming, budgeting and expenditure monitoring will be important. Finally, it is important that resources made available under the HIPC Initiative be utilized to implement the government's poverty reduction strategy, and in this regard, adherence to the budgeted provisions for defense will be essential to safeguard the macroeconomic program and social expenditures.

65. On balance, considering the above, in particular, the effectiveness of the government's poverty reduction strategy to date, the iterative process involving civil society by which it has been formulated, the authorities' continued commitment to macroeconomic stability, the staffs of the IMF and IDA suggest the following two options regarding Uganda reaching the decision and completion points under the enhanced HIPC Initiative:

- **Option 1: Collapse the decision and completion points**. Executive Directors may wish to consider whether or not Uganda's overall progress in developing and implementing a poverty reduction strategy, based on participation of civil society, and its performance under the ESAF/IDA-supported programs since the first completion point is sufficient to warrant a collapse of the decision and completion points. A collapse of the decision and completion points would be seen as a recognition of the progress Uganda has made in the area of participatory poverty reduction strategies.

- **Option 2: Separation of the decision and completion points.** Executive Directors may wish to consider whether or not there are sufficient benefits to be realized by separating the decision and completion points and linking the completion point to the finalization of the PRSP (expected later this year). The advantages of this option are that it would provide Executive Directors the opportunity to verify that the additional steps needed to complete the PRSP noted in paragraph 43 above are taken, and it would permit a clear demonstration of how the relief provided under the enhanced HIPC Initiative would be utilized to strengthen and accelerate the implementation of the government's poverty reduction program. It would also enable Directors to verify that Uganda has been able to contain defense expenditures in 1999/2000 to the budgeted amounts of about 2 percent of GDP (paragraph 25). Under this option the IDA and the IMF would intend to provide interim assistance.

VI. ISSUES FOR DISCUSSION

66. Executive Directors may wish to consider the following questions and issues:

- **Eligibility and decision point**: Staff and management believe that Uganda is eligible for relief under the enhanced HIPC Initiative and recommend approval of a decision point based on the country's track record of developing and implementing its poverty reduction strategy, and in implementing ESAF- and IDA-supported programs. Do Executive Directors agree?

- **Debt sustainability target and assistance**: Staff and management recommend that creditors agree to provide relief of US$656 million in NPV terms, sufficient to meet a target of NPV of debt of 150 percent of exports at the decision point. Do Directors agree? The cost shares for the IMF and the IDA are US$91 million and US$357 million, respectively. Do Executive Directors also endorse the suggested amounts of and delivery profiles of assistance under the Enhanced Initiative for the IMF and the IDA, respectively?

- **Creditor participation**: Some multilateral institutions may require bilateral financial support in order to deliver their share of assistance under the enhanced Initiative to Uganda. Do Directors agree that the staffs continue working with other multilateral creditors toward securing their participation?

- **Completion point**: Executive Directors may wish to consider the two options described in paragraph 65 above: (i) a collapse of the decision and completion points; or (ii) a decision point with a floating completion point to be reached after the full PRSP has been prepared by the government and endorsed by the Executive Boards of the IDA and the IMF, as a context for the World Bank's and the IMF's assistance, coupled with the provision of interim relief. Under option (ii), the staff will expect a completion point later this year. Directors' views on these two options would be appreciated.

Draft decisions would be provided to the respective Boards for approval on a lapse of time basis depending on Directors' preferences for options (i) and (ii) described in paragraphs 65 and 66. In the event that option (ii) were selected, proposed profiles for interim assistance would also be provided, based on identification of the most effective use of the additional resources.

HIPC Initiative: Status of Country Cases Considered Under the Initiative

(End-December 1999)

Country	Decision Point	Completion Point	NPV of Debt-to-Exports Target (in percent)	Assistance at Completion Point (in millions of U.S. dollars, present value, at completion point): Total	Bilat-eral	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 1/	Estimated Total Nominal Debt Service Relief (in millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
Completion point reached under original framework											
Uganda	Apr. 97	Apr. 98	202	347	73	274	69	160	20	650	Received
Bolivia	Sep. 97	Sep. 98	225	448	157	291	29	54	13	760	Received
Guyana	Dec. 97	May 99	107 2/	256	91	165	35	27	24	410	Received
Mozambique	Apr. 98	Jun. 99	200	1,716	1,076	641	125	381	63	3,700	Received
Decision point reached and assistance committed by IMF and World Bank under original framework											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 2/	345	163	182	23	91	6 3/	800	Being sought
Mali	Sep. 98	Spring 00	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/committed				3,355	1,618	1,737	305 4/	801	20	6,770	
Preliminary HIPC document issued 5/											
Ethiopia	1999 6/	2002	200	636	225	411	22	214	23	1,300	...
Guinea-Bissau	2000 7/	2003	200	300	148	153	8	73	73	600	...
Mauritania	Jul. 99 8/	2002	200	271	114	157	21	43	25	550	…
Nicaragua	2000	n.a.	150	2,507	1,416	1,091	32	188	66	...	...
Tanzania	2000	n.a.	150	2,485	1,314	1,171	110	728	59	...	...
Honduras	2000	n.a.	137 2/	569	208	361	18	85	18	...	...
Guinea	2000	n.a.	150	638	256	383	37	173	34	...	...
No assistance required under original framework, countries will be reassessed under the enhanced framework											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: IMF and World Bank Board decisions; completion point documents; decision point documents; preliminary HIPC documents; and Bank/Fund staff calculations.

1/ In percent of net present value of debt at completion point, after full use of traditional debt-relief mechanisms.

2/ Eligible under fiscal/openness criteria; for Guyana and Cote d'Ivoire, NPV of debt-to-exports target chosen to meet an NPV of debt-to-revenue target of 280 percent for the completion point, and for Honduras of 250 percent at the decision point.

3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion po in the calculation of this ratio.

4/ Equivalent to SDR 212 million.

5/ Targets for Ethiopia, Guinea-Bissau, and Mauritania are based on majority view in IDA and IMF Boards before the adoption of the enhanced framework; for Nicaragua, Tanzania, Guinea, and Honduras, targ are based on the enhanced framework and assistance levels are at the decision points; preliminary assessments are subject to chang

6/ Country case is delayed due to conflict.

7/ Debt situation needs to be revisited once a track record of policy implementation under the post-conflict recovery program has been establishe

8/ Boards agreed that Mauritania was ready to reach the decision point in July 1999 when the new PRGF arrangement was approved by the Fund Board. The formal decision point is expected in early 200