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Post-Conflict Recovery in Uganda

Frank Warnock and Patrick Conway

World Bank Institute

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Contents

Part A: Post-Conflict Recovery in Uganda, 1987 1

Background 1

Pre-Independence Economy 2

Political and Economic History: Independence Through 1985 3

The First Year of Museveni's Regime: 1986 4

The Current Political and Economic Situation: January 1987 6

Policy Decision 8

Bibliography 8

Sources 8

Appendix 10

Part B: Post-Conflict Recovery in Uganda, 1992 15

Overview of Policies and Aggregate Performance: Fiscal 1987–88 to 1990–91 15

International Support for the Reform Program 17

Government Budgetary Policy 17

Financial Sector Development 18

Foreign Exchange Availability 18

Agricultural Sector Performance 19

Manufacturing and Service Sector Performance 20

The Current Situation: June 1992 20

Policy Dilemma 21

Bibliography 21

Sources 21

Appendix B 22

Postscript: Post-Conflict Recovery in Uganda, 1995 29

Tables and Charts

Table A1. Selected Economic Indicators, 1965–86. 10

Table A2. Selected Social Indicators, 1960–85. 10

Table A3. Central Government Operations, Selected Years. 11

Table A4. Industrial Origin of Gross Domestic Product at Factor Cost, 1960–86. 11

Table A5. Industrial Origin of Gross Domestic Product at Factor Cost, 1965 and 1986. 12

Table A6. Production and Trade, 1960–86. 12

Tables and Charts (continued)

Table A7. Major Trading Partners, 1960–86. 13
Table A8. Exchange Rates, 1960–86. 13
Chart A1. Ugandan Coffee, 1965–86. 14
Table B1. GDP by Sector at Constant 1991 Prices, Fiscal 1985–91. 22
Table B2. GDP by Sector at Constant 1991 Prices, FY 1985–91 22
Table B3: Contributions to Real GDP Growth by Expenditure, Fiscal 1985–91 23
Table B4. GDP by Expenditure at Constant 1991 Prices 23
Table B5. GDP by Expenditure at Constant 1991 Prices. 24
Table B6. Production of Principal Commodities, 1986–92 24
Table B7. Exports of Cash Crops, 1986–92 25
Table B8. Balance of Payments, FY 1985–91 25
Table B9. Exchange Rates, FY 1985–91. 26
Table B10. Financial Indicators, FY 1986–91 26
Table B11. Central Government Operations, FY 1985–91. 27
Table B12. Destination of Central Government Expenditure 27
Chart B1. Price of Ugandan coffee, 1965–92. 28

Part A:
Post-Conflict Recovery in Uganda, 1987

Francis Unyofu sat back in his office chair and stared at the dilapidated ceiling. He had not thought life in the government would be quite like this. But fifteen years of political and economic chaos could not be erased in just one year. And there were certainly higher priorities than renovating this government office. At least, there was peace now—well, in most parts of the country—so Uganda could try to return to some form of normalcy.

At independence in October 1962, there was little indication that Uganda was headed for such privations. Independence came without a struggle: the British set a timetable for their withdrawal and stuck to it. It was Ugandans, not Europeans, who now grew the cotton and coffee, bringing a relatively high living standard, financing the education of their children, and raising expectations for the future. There was an impressive number of educated and prosperous middle-class professionals, the prestigious national Makere University, and a gleaming new teaching hospital at Mulago. At independence, Uganda looked optimistically to the future. Now, twenty-five years later, it is just looking to rebuild.

It is January 1987, one year after Yoweri Museveni led the National Resistance Army (NRA) to power. The past year was spent bringing an inclusive coalition together and debating the country's economic and political future. These have been exciting times in the capital, Kampala. But the time for debate is past. The people are getting edgy: long queues exist for consumer goods, unemployment is so high that it is not even counted, and many factories are not operating. Yes, the time for debate is past. It is now time for a concrete economic proposal, and it is up to Francis Unyofu as advisor to the new finance minister, Dr. Crispus Kiyonga, to draw it up. Dr. Kiyonga was quite clear in his orders to Francis: devise a strategy to increase economic activity while maintaining macroeconomic stability.

Background

Uganda is blessed with a pleasant climate and excellent growing conditions. Situated at the equator, rain is much more regular than in other African countries; only in the northern lowlands is the climate hot, dry, and less suitable for cultivation. About the size of Ghana (197,000 square kilometers), Uganda is surrounded by Kenya, Sudan, the former Zaire, Tanzania, and Rwanda and, therefore, landlocked. The nearest seaport is in Mombasa, Kenya, 1,300 kilometers by rail from Kampala. Uganda is also overwhelmingly rural: government estimates from 1986 show that, of its 15.1 million inhabitants, only 458,000 live in Kampala. Jinja, the next largest city, has only 45,000 inhabitants.

Although Uganda has twenty-eight tribal groups, the major ethnic division occurs between the mainly pastoral Nilotic tribes of the north, such as the Acholi and the Lango, and the mainly agricultural Bantu tribes of the south, the largest being the Baganda. Historically, the southern Bantu tribes have been less warlike and aggressive than the northern Nilotes. The

This is the first part of a three-part case created by Frank Warnock and Patrick Conway of the University of North Carolina at Chapel Hill on the subject of Ugandan economic growth. Thanks to Philip English and Jorge Araujo for useful comments on its content.

British capitalized on this distinction by recruiting its security forces from the northern tribes. This initiated a military domination of the south by the north, which lasted from before independence until 1986, when the predominately Bantu-based NRA seized power.

In addition to the traditional tribal divisions, powerful religious divisions exist. Two-thirds of the population is Christian, evenly split between Roman Catholics and Protestants, whereas 15 percent is Muslim. Membership of the religious communities often cuts across tribal divisions. For example, at independence the main political parties included the Kabaka Yekka (KY), which was mainly Protestant and Bagandan; the United People's Congress (UPC), which was Protestant but non-Bagandan; and the Democratic (DP), which was Bagandan and mainly Roman Catholic.

Pre-Independence Economy

At independence and throughout the 1960s, Uganda had one of the most vigorous and promising economies in Sub-Saharan Africa.[1] It relied overwhelmingly on agriculture, which accounted for almost two-thirds of gross domestic product (GDP) and 90 percent of exports in 1960. The manufacturing sector, although small, was growing and supplied the economy with basic inputs and consumer goods. The transportation system, which included an effective network of roads, railways, and port and air transport, was widely regarded as one of the best in Sub-Saharan Africa. Railroads and paved roads connected Uganda with the seaport of Mombasa. Airports linked the more important Ugandan towns with other East African territories (Kenya and Tanganyika). Entebbe boasted a modern international airport, and steamer services ran on the lakes and the River Nile. In addition, Uganda had a large subsistence sector. This nonmonetized sector comprised almost one-third of the country's economic activity, and much of the population remained outside the formal economy.

Uganda's two biggest cash crops, cotton and coffee, made up 76 percent of its exports. Some of the world's best quality tea was grown on a few large Asian-owned estates. Valuable minerals, notably copper, had been discovered, and water power resources were substantial. Export earnings not only financed the country's import requirements but also resulted in a current account surplus.

Prior to independence, the major destinations of Ugandan exports included India (20 percent of total exports, mostly cotton), Britain (16 percent, mainly cotton and coffee), the United States (15 percent, all coffee), and Kenya (12 percent, sugar and a variety of products). Ugandan imports were primarily manufactures from the United Kingdom (19 percent of total imports) and Japan (9 percent). Imports from Kenya were also significant, representing 24 percent of total imports.

At independence, Uganda was a member of the East African Currency Board along with Kenya and Tanganyika. The currency board was the sole issuer of notes and coins, and the East African shilling was at par with the United Kingdom shilling. Inflationary financing of fiscal deficits was not an option and pre-independence fiscal deficits were correspondingly small, amounting to 0.1 percent of GDP in 1960.

[1] All tables supporting the data discussed in this text are in the appendix of part A. Much of the data is presented for years representing the various regimes since 1960: pre-independence (1960), Obote I (1965), Amin (1971 and 1977), Obote II (1981), and Museveni (1986).

Uganda's relative affluence had been translated into strong governmental social welfare services. The country's health sector had developed into one of Africa's most extensive and had pioneered health and nutrition programs for low-income citizens. Primary and secondary education was characterized by a pupil-teacher ratio that was 25 percent below the African average in 1960.

Although prospects were bright at independence, some seeds of economic mismanagement had already been planted. The colonial government strictly regulated the buying and selling of major cash crops through marketing boards. At first, the marketing boards were set up as a way to unify sales to Allied wartime supply agencies and provide some insurance to growers against fluctuating prices. Later, however, as coffee and cotton prices rose on the world markets, the marketing boards did not raise the prices they paid to the farmers. As substantial surplus funds accumulated, considerable transfers were made to the central government for direct budget support. Steep export taxes were also imposed, particularly on cotton. The producers of cash crops, thus, began to finance government expenditures.

Political and Economic History: Independence Through 1985

When Uganda became independent on October 9, 1962, Dr. Milton Obote, a Protestant northerner of the Lango tribe, was the first prime minister. Obote packed his government and army with ethnic and religious compatriots. Dissent from the southern Bantu tribes was brutally repressed, and, in March 1968, Obote suspended the constitution and assumed all powers of government.

The economy did relatively well in the 1960s, as real GDP growth averaged 4.8 percent per year from 1965 to 1970. Cash crop production was quite strong, with 1965 coffee and cotton production at 218,000 tons and 243,000 tons, respectively. Copper production was at a historical high in the late 1960s at more than 16,000 tons per year. The manufacturing sector was small but growing, reaching 6 percent of GDP by 1965 and 7.3 percent by 1971.

In 1966 the Bank of Uganda became the Central Bank. It promptly withdrew from the East African Currency Board and issued a new currency, the Ugandan shilling, which remained at par with the UK shilling until 1973.[2] The bank also took over exchange control and the function of controlling commercial banks through credit control. In this way, the government could decide who would get foreign exchange and who had access to bank credit. Central government borrowing to finance fiscal deficits began increasingly to crowd out private borrowing, and the annual rate of growth of domestic credit quickly increased from nearly zero in the early 1960s to more than 20 percent by 1967.

In 1971 General Idi Amin, a member of a northern Nilotic tribe called the Kakwa, staged a successful coup and went on to brutalize the country with a surge of tribal massacres and political killings. Amin carried out murderous acts in particular on Obote's Lango tribe and their neighbors the Acholi and maintained a constant persecution of Christians. After rediscovering his Islamic heritage in an effort to secure aid from Libya and Saudi Arabia, Amin promptly reduced Uganda's Muslim population by expelling almost all of Uganda's 70,000 Asians of Indian and Pakistani decent. The Asians, who had been active in agribusiness, manufacturing, and commerce, were forced to leave behind their businesses and belong-

[2] In following references to currency, "shilling" and "USh" refer to the Ugandan shilling, unless otherwise specified.

ings. But they could have faced a worse fate: in the eight years under Amin's rule, an estimated 300,000 people were killed.

Uganda's once vibrant economy collapsed during Amin's reign. Real GDP growth averaged 0.2 percent per year in the first half of the 1970s. The second half was worse as real GDP fell an average of 3.5 percent per year from 1976 to 1980, while per capita incomes fell to among the lowest levels in the world.

Cash crop production suffered during the Amin regime. By 1977 cotton production had fallen to 14,000 tons, just 6 percent of the 1965 level. Although India was once the single largest destination for Ugandan products, the expulsion of Asians and reduction of cotton production effectively reduced exports to India to nil. Asians managed many of the tea estates, so tea production all but ceased as well. Coffee production also fell, but not nearly as much, as Ugandan smallholders were still able to produce even with political unrest. Copper production in 1977 was just 15 percent of its 1971 level, and by 1979 copper production ceased. The manufacturing sector began to contract.

Uganda registered a substantial budget deficit for nearly every year in the 1970s as military expenditures grew substantially. Deficits equivalent to more than 50 percent of current revenues were not unusual: in 1974 the deficit reached 134 percent. Only in the mid-1970s, when the price of coffee skyrocketed, were the deficits relatively small. Even then, the government was crowding out private investment: by the mid-1970s, claims on the central government (government borrowing) were consistently near 70 percent of domestic credit. Private savings and investment were reduced to about 6 percent of GDP, well below the 1960s ratio of 15 percent.

Amin was forced to flee the country in 1979, and Milton Obote returned to power in 1980 in an election that was widely regarded as rigged. Obote's new army conducted savage acts of reprisal against tribes that had been loyal to Amin. For the Baganda, persecuted in Obote's first reign, it was more of the same. By 1981 guerrilla groups were forming in the bush. The largest was Yoweri Museveni's National Resistance Movement, which drew its support from the southern Bantu tribes. After five years of civil war, Obote was overthrown for a second time in July of 1985 by a group led by General Tito Okello (an Acholi). In January 1986, Museveni seized power. Okello's army retreated to the north, looting along the way.

The First Year of Museveni's Regime: 1986

Yoweri Museveni came to power in January 1986 in a devastated Uganda. The country had suffered dictatorship, tribal and regionally based violence, army lawlessness, and brutal human rights abuses for most of its twenty-three years as an independent nation. Life expectancy, measured as less than fifty years, was one of the worst in the world. Real government spending on health programs and education fell to 27 percent and 9 percent, respectively, compared with their average levels in the 1970s.

Uganda was in economic shambles. Its roads, railways, hospitals, and schools were destroyed. Real per capita GDP, at $230, was 60 percent of its level in 1971.[3] Its average annual rate of growth from 1965 to 1985 was –2.6 percent, the lowest in the world for that period. The only sector that grew substantially in this period was the government. The nonmonetary sector (primarily agriculture) remained resilient throughout the turmoil and, in 1986, made up

[3] In the following references to currency, the word "dollar" and the symbol "$" refer to U.S. dollars.

40 percent of overall production. Indeed, most Ugandans relied on this subsistence sector for the basic means of their survival.

Coffee, which is grown mainly by smallholders in Uganda, had fared much better as a sector during the fifteen years of unrest than had the largely estate-grown cotton and tea sectors. In 1986 coffee production was at 160,000 tons or 73 percent of its 1965 level, while cotton production plummeted to only 7 percent of its 1965 level. The sugar industry, which had once produced enough to satisfy domestic demand and export to nearby countries, collapsed in the early 1980s. With the closing of the Kilembe copper mine in 1977, copper production virtually ceased.

The industrial sector had suffered greatly from the country's unrest and economic problems. After years of neglect and destruction, Uganda's factories were operating far below capacity: only ten of eighty-three establishments surveyed by the Ministry of Planning and Economic Development in 1985 were operating at more than 30 percent of capacity, whereas twenty-nine recorded no output at all. Estimates of capital-labor ratios in the mid-1980s indicate that Uganda's average capital-labor ratio was only 10 percent that of Tanzania and 7 percent that of Kenya.

The lack of foreign exchange to buy spare parts and lack of functioning infrastructure presented serious obstacles to industrial growth. One need only look at the dilapidated road system in and around Jinja, the nation's former industrial hub to understand the formidable task facing manufacturers: even if they secured the foreign exchange needed to buy imported inputs, transporting their goods was nearly impossible.

The banking sector had contracted during fifteen years of negative economic growth. In 1970 Uganda had 290 commercial bank branches. By 1987 only eighty-four remained, of which fifty-four were branches operated by government-owned banks. And why would a Ugandan want to deposit money at a bank? With inflation at more than 200 percent and Central Bank–controlled interest rates around 20 percent, it was a losing proposition. Not surprisingly, Uganda's gross domestic saving and investment each represented less than 10 percent of GDP, and domestic consumption was consistently more than 100 percent of GDP.

The Ugandan shilling had not fared well. Fixed at 7 shillings to the dollar for most of its existence, it was repeatedly devalued during Obote's second regime. At first, in mid-1981, Obote let the shilling float: it immediately fell to 4 percent of its previous value before settling at a rate of 78 per dollar. A shortage of foreign exchange gave rise to the *kibanda* (informal and illegal) market. By the end of 1985, the official rate was 1,400 shillings to the dollar, whereas the *kibanda* rate was almost three times higher at 4,000, indicating that even at 1,400 the official rate was vastly overvalued. Once at par with the Kenyan shilling, the Ugandan shilling had become virtually worthless: on the streets of Kampala, one Kenyan shilling could fetch 500 Ugandan shillings.

Museveni faced a difficult transformation from guerrilla leader to the leader of a nation. He could have pursued the route of previous Ugandan coups and massacred his defeated opponents, looting along the way, but instead moved to discipline his forces. Drake Ssekeba, the editor of *The Star,* an independent Ugandan newspaper, noted this: "Every time there is a coup in Uganda there is looting. When Museveni and his men came, there was no looting. That was one of the earliest signs that Museveni was different from those who came before him."

At his installation Museveni voiced his concern for human rights: "The people of Uganda should only die from natural causes, which are not under our control." To be sure, he continued to fight insurgent groups, mostly in the north, but offered total amnesty to those who surrendered their weapons.

In forming a government, Museveni chose a broad, national front regime: anyone who wanted to join his party was to be accepted, even if they were enemies the day before. The coalition government was inclusive and comprised leaders from many of the movements that formed in opposition to Milton Obote.

Peace finally came to most of Uganda. The slaughter of political dissidents and of families and children stopped after his National Resistance Army took power. Yet, by late 1986 concern grew that the Museveni government was failing to provide the direction or policies needed to rebuild the country's devastated economy and improve the plight of the average Ugandan. The skills needed to conduct a successful guerrilla war were not necessarily the same as those needed to steer the country toward recovery.

The Current Political and Economic Situation: January 1987

The first year of the Museveni regime was marked by a tentativeness in governance that led, according to some, to serious misjudgments in economic policy. A senior Western financial expert noted that "agriculture is heavily, heavily discriminated against in favor of the urban consumers, traders, and importers." Several economic decisions have benefited urban consumers with a calamitous effect on Uganda's fiscal condition.

The new economic strategy announced in August 1986 by the finance minister, Mr. Ponsiano Mulema, a professor of economics, was a disaster. Its centerpiece was a huge revaluation of the Ugandan shilling. Since May 1986, two legal exchange rates had existed: official transactions were carried out at a rate of 1,400 shillings to the dollar and all other transactions at a legal market rate of about 5,000 shillings to the dollar. Transactions also occurred in the informal *kibanda* market. Mr. Mulema abolished the legal market rate, so all legal transactions would be at the 1,400 shilling rate. Every exporter has since vowed to keep his money abroad; every would-be importer rushed to get licenses to import at the new, artificially favorable rate. The *kibanda* rate immediately shot up to 8,000 shillings per dollar. In October 1986, Mulema was replaced by Dr. Crispus Kiyonga, who has a medical background

Kiyonga has a difficult task. The government's finances are shaky at best. In an attempt to enable Ugandan citizens to purchase imported consumer goods, the government fixes their prices below world prices. This, of course, puts considerable pressure on the government's finances: for example, in July 1986 the government imported $4.8 million worth of sugar to sell at subsidized prices. Similarly, government subsidies enable Ugandans to buy petrol for about 10 US cents per liter, the lowest price in any country that does not produce oil.

The subsidies of imported consumer goods put pressure on the government in another way: it requires foreign exchange. At independence, exports of cotton, coffee, tea, grain, copper, and a few manufactures earned a substantial amount of foreign exchange. Uganda now exports only coffee. Export earnings of $400 million per year barely covers the $200 million debt service payments and imports of oil, sugar, and spare parts for the army.

With the nonmonetary sector representing almost 40 percent of economic activity, collection of income taxes has become a formidable problem, forcing the government to turn

again to the coffee producers. Export taxes on coffee provide more than 50 percent of the government's revenue. Moreover, the government controls the marketing of coffee through the Uganda Coffee Marketing Board (CMB). The international price of Ugandan coffee has increased almost 50 percent since its 1980 lows, but it has been the government, not coffee growers, that has benefited. CMB periodically increases the prices it pays growers, but in practice the currency depreciation wipes out any increased purchasing power: increases in official CMB prices consistently bring the price paid to producers back up to 10 percent of the world price (computed at the *kibanda* exchange rate).

Coffee grows in Uganda, even if it is neglected, but farmers pick the beans only if they are paid to do so. Some farmers sidestep CMB by smuggling their coffee into Kenya or Rwanda for sale at the average world price of about $1.80 a pound. Bananas, which grow with little maintenance on the smallholder coffee estates, give coffee growers another choice: they can pick bananas, a stalk of which fetches, in Ugandan shillings, at least seven times as much as a pound of coffee.

Smuggling has become a way of life in Uganda and not only for coffee farmers. Price controls on consumer goods, along with the controlled official exchange rate, offer smugglers profitable opportunities. A small-time Ugandan smuggler can buy 20 liters of petrol for $2, strap it to his bicycle and cross the border to Kenya or Rwanda and sell it for $20. Back in Uganda, he can sell the foreign exchange at the *kibanda* rate of 16,000 shillings to the dollar, reaping a net one-day profit of 288,000 shillings. By comparison, a government minister's *monthly* salary is about 90,000 shillings. The minimum monthly wage is 10,000 shillings, not enough to buy a stem of bananas or two pounds of sugar.

The manufacturing sector is hampered by its own foreign exchange problem: imported parts and machinery are required to rehabilitate existing factories, but the foreign exchange to purchase them is unavailable. Skilled workers—specifically, engineers and repair people—and people with management experience are greatly needed. Moreover, a substantial portion of the manufacturing sector is based on processing agricultural products. The problems plaguing the agriculture sector also hamper industrial production.

Overseas companies seem interested in investing in Uganda but are still quite cautious. The memories of the expulsion of the Asian business community hold some companies back. The government is trying to attract foreign investment by publicly welcoming it, but in practice overseas companies are finding ambivalent attitudes among individual government officials, who give different impressions based on their own viewpoints.

Uganda's relationships with its neighbors are not as smooth as in the past. Political and economic strains caused the demise of the East African Community in 1977. Uganda's relationship with Kenya deteriorated further in 1986, as each country alleged the other had been providing support for opposition groups. In the west and north, the movement of ethnic groups across the boundaries with Rwanda, Zaire, and Sudan has been a source of friction. Relations with Tanzania have remained good, although its economy is in poor shape as well.

Ugandans believe in Museveni, but their patience is wearing thin. "Rehabilitation by the government is very slow," says the Reverend Wilson Sentongo, waiting for rations of food and other supplies. "We do not know what their plan is. They are telling us to tolerate things. Museveni has sympathy for us, we know, but the problem is supplies are not here and we need help."

Members of the government and many other Ugandans are deeply divided on which course the economy should take. Exchange rate policy and government price controls are the two main issues; the August 1986 budget already cut back fiscal spending. The World Bank and other donors are pushing strenuously for exchange market reform, but Museveni is determined not to let them dictate Ugandan policy. At the same time, Museveni is a pragmatist who wants to do what is best for Uganda.

Policy Decision

A presidential economic council has been set up to coordinate all aspects of national economic planning and investment. The council is advisory to the president and includes Dr. Kiyonga, the ministers of marketing and commerce, and the governor of the Bank of Uganda. Museveni has stressed that he wants economic activity to reattain pre-independence levels. As an economic advisor to Dr. Kiyonga, Francis Unyofu must draw up a strategy to increase economic activity without compromising macroeconomic stability.

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Sources

Francis Unyofu is a creation of the authors, but the other details of Ugandan history are factual. Rather than interrupt the narrative, we credit here those sources from which substantial information has been drawn. More detailed citations are available, when needed, from the authors.

"Background" was drawn from Library of Congress (1992).

"Pre-Independence Economy" was drawn from IBRD (1962).

"Political and Economic History: Independence Through 1985" was drawn mainly from EIU quarterly Country Reports and annual Country Profiles.

"The First Year of Museveni's Regime: 1986" was drawn from EIU (1988), Library of Congress (1992) and various articles that appeared in *The New York Times, The Economist,* and *The Financial Times,* with precise citations available from the authors.

"The Current Political and Economic Situation: January 1987" was drawn from EIU (1988) and various articles that appeared in *The New York Times, The Economist,* and *The Financial Times.*

Appendix

Table A1. Selected Economic Indicators, 1965–86.
(percent)

Indicator	*1965–70*	*1971–75*	*1976–80*	*1981–86*
Real GDP growth	4.8	0.2	–3.5	3.0
Real per capita GDP growth	2.5	–2.5	–6.0	1.6
Gross domestic investment *(percent of GDP)*	14.4	10.9	6.0	7.2
Gross domestic savings *(percent of GDP)*	16.0	11.1	6.0	4.6
Inflation	4	17	59[a]	78

a. Average annual inflation rate for 1976 to 1978.
Sources: Sharer and others (1996); IMF (1985 and 1995).

Table A2. Selected Social Indicators, 1960–85.

Indicator	*1960*	*1970*	*1980*	*1985*
Pupil teacher ratio (primary)	30.7	33.5	33.6	34.5
	(42.6)	(43.1)	(41.2)	(39.2)
Drop-out rate		22.4	24.3	24.3
		(43.4)	(36.6)	(37.5)
Adult illiteracy	65	60	52	57
	(85)	(70)	(63)	(48)
Population per physician *(thousands)*	15.0	9.2	26.8	21.9
	(39.4)	(31.8)	(22.9)	(23.8)
Life expectancy	44	50	54	48
	(38)	(45)	(47)	(51)

Sources: Barro and Lee (1993) data set; World Bank, *World Development Report* (various years).
Note: Averages for Africa in parentheses.

Table A3. Central Government Operations, Selected Years.

	1960	*1971–75*	*1976–80*	*1981–86*
Central government *(percent of GDP)*				
Revenue	12.9	10.0	8.3	5.3
Grants	1.1	0.1	0.1	0.4
Expenditure	13.9	17.2	10.4	8.2
Deficit (–)	–0.1	–7.2	–2.0	–2.4
Claims on central government *(percent of domestic credit)*	n/a	63.9	69.2	53.7
Domestic credit *(annual growth rate)*	n/a	29.3	32.9	65.3

Sources: IMF (1995); IBRD (1962).

Table A4. Industrial Origin of Gross Domestic Product at Factor Cost, 1960–86.
(percent of real GDP)

	1960	*1965*	*1971*	*1977*	*1981*	*1986*
Agriculture	63.8	53.2	51.1	54.4	55.1	63
Manufacturing	4	6	7.3	6.4	3.9	3.3
Construction	2.6	1.9	1.7	1.1	0.6	2.9
Transport, communications, and commerce	12.1	17	16.8	12.3	10.6	17.1
Government	4.3	6	6.9	10	14	6.5
Other monetary	13.2	15.9	16.2	15.8	15.8	7.2
Nonmonetary	27.2	32.9	30.0	30	39.8	39.2

Sources: IBRD (1962), EIU Country Profiles (various issues).

Table A5. Industrial Origin of Gross Domestic Product at Factor Cost, 1965 and 1986.
(at 1966 prices)

	1965		*1986*	
	millions of USh	*percent*	*millions of USh*	*percent*
Agriculture	3,077	53.2	3,968	55.1
Mining and quarrying	111	1.9	7	0.1
Manufacturing	373	6.4	314	4.4
Electricity, gas, and water	60	1.0	95	1.3
Construction	107	1.8	54	0.8
Transport, communications, and commerce	982	17.0	702	9.8
Government	345	6.0	932	13.0
Other services	732	12.6	1,126	15.6
GDP	5,787	100.0	7,196	100.0
(o/w nonmonetary)	1,904	32.9	2,867	39.8
Average annual growth rate of real GDP, 1965–86:	1.0%			

Sources: Quarterly Economic Report and Country Profile (EIU).

Table A6. Production and Trade, 1960–86.

	1960	*1965*	*1971*	*1977*	*1981*	*1986*
Coffee						
Production *(thousands of tons)*	113	218	191	156	128	160
Percent of total exports	40.8	42.0	50.7	92.9	98.0	96.6
Cotton						
Production *(thousands of tons)*	210	243	75	14	4	18
Percent of total exports	35.9	23.1	17.6	2.6	0.9	1.2
Copper						
Production *(tons)*	14,515	16,870	16,900	2,500	nil	nil
Percent of total exports	8.9	11.0	8.3	0.0	0.0	0.0
Sugar *(percent of exports)*	3.6	1.2	1.0	0.0	0.0	0.0
Tea *(percent of exports)*	3.5	3.3	4.7	2.1	0.1	0.8
Total Exports *(percent of GDP)*	27.4	3.3	1.8	1.0	4.6	10.3
Total Imports *(percent of GDP)*	17.1	25.7	17.2	4.1	nil	16.7

Sources: IBRD (1962); World Bank (1993); IMF (1995).

Table A7. Major Trading Partners, 1960–86.

	1960	*1971*	*1977*	*1981*	*1986*
Exports *(percent of total)*					
United Kingdom	16.2	21.8	17.5	13.7	15.6
United States	15.3	20.1	37.8	40.2	29.1
Japan	2.7	9.8	3.2	5.6	3.8
India	20.1	7.4	nil	0.0	0.0
Kenya	12.3	8.7	0.4	0.7	0.3
Imports *(percent of total)*					
United Kingdom	18.7	24.6	9.1	14.3	13.5
United States	n/a	5.4	0.7	1.9	1.5
Japan	8.7	10.3	3.2	1.5	5.7
India	2.2	3.6	2.6	5.3	7.6
Kenya	23.7	21.5	56.6	33.0	37.4

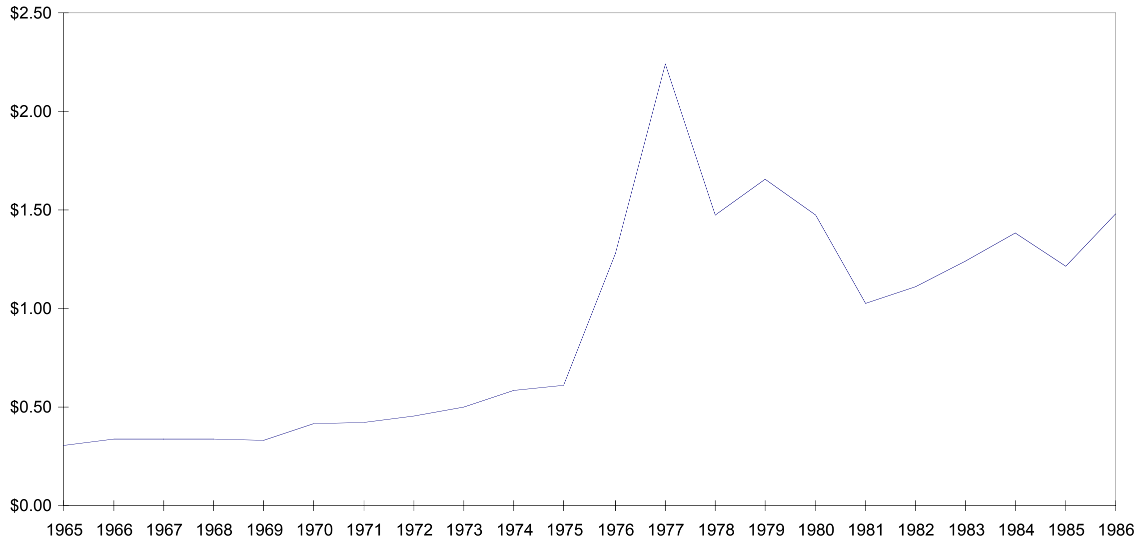
Source: IMF, *Direction of Trade Statistics Yearbook,* (various years).

Table A8. Exchange Rates, 1960–86.

	Official (USh/US$)	*Kibanda (USh/US$)*	*Real Effective (1987=100)*
1960–74	7		
1977	8		
1980	8		435
1981	85		308
1982	106		107
1983	240		83
1984	520		57
1985	1,400	4,000	74
1986	1,400	12,000	78

Sources: Bank of Uganda and International Monetary Fund.
Note: Official and *kibanda* rates are end of year. The real effective rate is annual average.

Chart A1. Ugandan Coffee, 1965–86.
(US dollars/pound)



Part B:
Post-Conflict Recovery in Uganda 1992

Progress has been made, thought Francis Unyofu. Six years after Yoweri Museveni and his National Resistance Movement took power, Uganda has made remarkable strides in overcoming as grim a legacy as any African government has known. Improved security has been an important factor in allowing the country to rebuild. Economic policy has helped, too. The past six years has seen economic growth averaging more than 5 percent per year, as idled land and vacant factories were brought back into use. The economy has also achieved lower price inflation.

Now, in 1992, Uganda is at a crossroads. Economic growth is slowing, and inflation is beginning to rise. Uganda is highly indebted to foreign lenders. Further increases in capacity utilization will be a costly means to grow and cannot represent a strategy for sustained economic growth. Infrastructure remains inadequate in transport and communications. The preferred road is clear: public and private investments are needed to continue the reconstruction. Some of this can come from abroad, if Uganda's economic prospects appeal to international investors, although Uganda is currently seen as a high-risk country. But what about Ugandans, Francis thought?

It is June 1992, and Francis is a department head in the Finance Ministry—now called the Ministry of Finance and Economic Planning. The minister, his boss, is recently appointed—Mr. Joshua Mayanga-Nkangi, the former minister of planning and economic development, replaced Dr. Kiyonga. His department has been tasked to devise a strategy to increase productive investment for the next five years while maintaining fiscal and monetary discipline. The minister has asked Francis to direct this effort.

Overview of Policies and Aggregate Performance: Fiscal 1987–88 to 1990–91

In May 1987 the Museveni government announced its first economic program.[4] It had six basic components:

- A new Ugandan shilling (USh) went into circulation at a rate of 60 to the dollar.[5] This represented a 77 percent reduction in value of the shilling. Old shillings could be converted to new shillings at the rate of 100 to 1, but such conversions were subject to a 30 percent tax.
- The Rehabilitation and Development Plan was inaugurated. This plan was a timetable for government expenditures designed to restore production capacity and rehabilitate economic and social infrastructure. The plan called for funding of $1.3 billion for

This is the second part of a three-part case created by Frank Warnock and Patrick Conway of the University of North Carolina at Chapel Hill on the subject of Ugandan economic growth. Thanks to Philip English and Jorge Araujo for useful comments on its content.

[4] The Ugandan fiscal year runs from July 1 to June 30.

[5] In the following references, the word "dollar" and the symbol "$" refer to U.S. dollars. The word "shilling" and acronym "Ush" refer to the Ugandan shilling, unless otherwise noted.

four years, with transport to receive the major share (29 percent), followed by agriculture (24 percent), industry and tourism (21 percent), social infrastructure (17 percent), and mining and energy (7 percent).

- Prices paid to farmers were increased by up to 500 percent as an incentive to revive agricultural production.
- The price of petrol was increased by 50 percent, somewhat closer to its real market value, in an attempt to reduce smuggling and government outlays.
- The salaries of civil servants were doubled in an effort to restore some of their lost purchasing power.
- Under an International Monetary Fund program, the government promised to tighten its budget and reduce inflation by restricting monetary expansion.

In the first year, insufficient tax revenues along with a falling international price for coffee led to a large budget deficit. The government turned to the Bank of Uganda to finance its deficit, thus, continuing its inflationary policy of previous years. In July 1988, however, the government redoubled its efforts at macroeconomic stabilization. In his fiscal 1988–89 budget presentation, Finance Minister Crispus Kiyonga announced additional economic reforms:

- The shilling would be devalued by a further 60 percent to USh150 to the dollar.
- Further efforts would be made to reduce the budget deficit.
- Producer prices and public sector wages would be increased.

Still later, a policy of regular adjustments of the exchange rate to maintain a real effective depreciation was introduced.

In the period under consideration, growth in real GDP exceeded 5 percent on average. In the prior fiscal year (fiscal 1986–87), real growth was 3.7 percent a year. In the subsequent four fiscal years the annual growth rate averaged 6.2 percent. In fiscal 1991–92, the economic growth rate once again fell to under 4 percent a year.[6] Both public and private investment increased during the period represented by fiscal 1986–87 to fiscal 1991–92. Private investment rose from 8 percent of GDP in fiscal 1985–86 to 10.6 percent on average for the period fiscal 1987–88 to 1990–91, but settled back to 9 percent of GDP in fiscal 1991–92. Public investment, in contrast, rose throughout the period from 3.5 percent of GDP in the prior fiscal year to 6.8 percent of GDP in the final year. The period 1980–93 was characterized by a strong push in primary education and tremendous increases in enrollment in that age cohort. Secondary education, however, remained below average for low-income countries.

This investment was for the most part financed through foreign borrowing, because domestic saving (public and private) was negative on average for each period. The public fiscal deficit played a large part in this negative saving; fiscal deficits rose from 4.2 percent of GDP in 1985–86 to 14.1 percent of GDP in 1991–92. In fiscal 1990–91 the annual inflation rate was down to 25 percent, representing a drastic improvement from more than 200 percent inflation in 1986–87. As noted above, however, the inflation rate rose in fiscal 1991–92 to above 40 percent.

[6] Tables providing evidence corroborating the discussion in the text can be found in the appendix to part B.

International Support for the Reform Program

The World Bank, International Monetary Fund, and other donors responded vigorously to Museveni's reform policies by pledging $310 million in aid in fiscal 1987–88. This was $50 million more than the government had sought and was earmarked for purchasing essentials—imports of raw materials, spare parts, and capital goods needed to get production rolling again. All debt repayments that Uganda was to make in fiscal 1987–88 were also rescheduled; this released the country from $66 million in international payments that year.

Government Budgetary Policy

The desired fiscal deficit reduction did not materialize during fiscal 1986–87 to 1990–91. Government revenue remained quite low as international coffee prices plummeted, tax collection remained inadequate, and the proposed sale of twenty-two parastatal enterprises did not develop as quickly as planned. With the government's commitment to public investment and the continuing petrol subsidy, reduction of the budget deficit became an impossible task. Fiscal deficits averaged nearly 7 percent of GDP in the late 1980s. Grants and foreign aid financed a portion of the deficits, but Uganda accumulated a substantial foreign debt as well. Uganda's debt service ratio (as a percent of exports) rose above 70 percent by 1991.

A number of government policies were intended to reduce the adverse effects of these deficits:

- First, the government for the most part avoided borrowing from the Bank of Uganda in financing its fiscal deficits. The government was increasingly able to turn to external funding, both loans and grants, with the result that domestic borrowing averaged only 0.2 percent of GDP during these years.
- Second, the government lessened its reliance on revenues from coffee taxes and the Coffee Marketing Board. By fiscal 1990–91, coffee taxes and budgetary contributions of the board represented only 10 percent of government revenue, down from 35 percent in fiscal 1986–87. This was accomplished by reducing the coffee export tax rate and increasing collection of customs duties and sales taxes, which became the principal sources of recurrent revenue by fiscal 1990–91.

The Museveni government also became more successful in income tax collection by increasing delegation of responsibility for collection by local governments. Nevertheless, the restructuring of revenue collection was hampered by the sheer size of the nonmonetary sector. Although its importance declined during this period, at the end of the period, it reportedly still represented 32 percent of total economic activity.

The government realizes that social and infrastructural spending has been inadequate because central government spending has, in the past, been dominated by defense. Official numbers indicate that defense swallowed 22 percent of government spending in fiscal 1990–91, although unofficial estimates are closer to 50 percent. At the same time, education received only 14 percent of recurrent spending, and health received a meager 5 percent.

To be sure, the government has tightened its belt in some areas. For example, the civil service has undergone a restructuring; almost one-half of the 225,000 civil service positions were eliminated in 1990–91. Unfortunately, this has done little for the image of the government, because many low-level workers were released, whereas the extravagance of high-

level officials is chronicled daily in the press. Moreover, those still at work earn a less-than-subsistence salary. At the bottom end of the ladder, civil servants earn only 1,000 shillings per month—the price of a bunch of bananas. Permanent secretaries heading government agencies earn only 6,000 shillings monthly. Most bureaucrats spend much of their time working on outside income-earning activities.

Financial Sector Development

Most private citizens have had access to commercial banks or other saving institutions but have remained uninterested in depositing their earnings with those institutions. In 1970 banks held time deposits valued at 5.9 percent of GDP, but by 1989 the same ratio had fallen to 0.7 percent. (In contrast, in 1991, in neighboring Kenya, time deposits represented 17 percent of GDP.)

Two reasons appeared paramount in the private choice not to save through the banking system:

- The Bank of Uganda set nominal interest rates, but these rates were lower in annual terms than the inflation rate. Putting money in the bank, thus, was a losing proposition for Ugandans, because the purchasing power of the funds withdrawn from the bank, even after interest was earned, was less than its original value.
- Corruption scandals have lowered confidence in banking institutions. In 1989 the state-owned Uganda Commercial Bank was charged with defrauding depositors. In 1991 the bank was again linked to a conspiracy to defraud the government. (A Danish aid worker discovered the conspiracy and was subsequently shot in broad daylight in Kampala.) These frauds were associated with documented mismanagement at the bank and were made worse in the public eye by the extravagant lifestyle of the bank's managing director. High-ranking officials in other banks were also charged with fraud. Also in 1991, the manager of the Orient Forex Bureau was arrested at Entebbe airport while smuggling out $1 million in cash, traveler's cheques, and bank drafts.

The Bank of Uganda was accused of inadequately supervising the banking system; indeed, in the banks investigated, reserves against deposits were discovered to be woefully below the required 10 percent. Evidence also exists of insolvency on the part of the larger commercial banks, including the state-owned Uganda Commercial Bank. These banks have substantial accumulated losses, a high proportion of nonrecoverable loans, and a weak cash flow.

Foreign Exchange Availability

Foreign exchange remained the single biggest constraint for businesses. Hard currency continued to be available only erratically and without advanced notice, making planning impossible. According to one report, even some parastatals (government-controlled enterprises, many of which were confiscated or taken over when abandoned by Asians expelled in 1971) were driven to buy dollars on the *kibanda* (informal and illegal) market to pay for essential imports. Moreover, the Bank of Uganda was under attack for widespread mismanagement and corruption in the area of foreign exchange and import licenses. In an attempt to gain some control of the illegal market in hard currencies, in 1990 the government legalized the *kibanda* by introducing a system of authorized foreign exchange (forex) bureaus.

The continued overvaluation of the shilling on the official foreign exchange market made life difficult for Ugandan exporters. Even with periodic devaluations, the shilling was vastly overvalued: the *kibanda* rate was typically two or three times higher than the official rate. Even the later policy of real effective depreciation was only partially successful. This helped to close the gap between the official and *kibanda* rates, but by 1991 the official rate was up to 558, compared to 780 in the forex bureaus, for a remaining premium at 40 percent. Not surprisingly, Uganda's annual trade deficit averaged more than $400 million.

Agricultural Sector Performance

Much of Uganda's economic growth during this period is attributable to the agricultural sector. Funding of $400 million from the Rehabilitation and Development Plan helped, as did improvements in infrastructure. Efforts were made to both increase production of traditional cash crops (coffee, cotton, tea, and tobacco) and promote cultivation of nontraditional agricultural crops (NTA) such as maize, beans, peanuts, soybeans, sesame seeds, and a variety of fruits. Traditional cash crops on average contributed little during this period to real GDP growth, but NTA crops contributed almost 30 percent of observed real growth.

Some of the traditional cash crops made a comeback. Recognizing the linkages cotton has with other industries such as local textile mills, soap factories, and animal feed, the government initiated an emergency cotton production program in 1989 that provided extension services, tractors, and other inputs for cotton farmers. Although cotton suffered from rural insecurity and labor shortages in the central and southeastern regions of the country, exports increased from about 3,000 tons per year in the late 1980s to nearly 8,000 tons in 1991.

The return of Asians expelled in the early 1970s revitalized the tea and sugar sectors. Tea exports rebounded dramatically, rising from 2,000 to 3,000 tons in the late 1980s to 7,000 tons in 1991. Sugar production also increased substantially—from nil in 1987 to more than 40,000 tons in 1991—as old estates were rehabilitated in joint government ventures with the original owners.

This period was unfortunately a difficult time for Ugandan coffee growers, pulling down the average contribution of cash crops to GDP growth. Even in good times the price that CMB paid to growers never amounted to much more than one-tenth of the world price. In December 1988, the situation worsened: due to its own budgetary shortfalls CMB was unable to pay farmers for new deliveries. Although the government agreed to provide funds for these obligations, some farmers were unpaid for another year. The situation deteriorated further in July 1989 when the International Coffee Organization—a consortium of coffee-producing nations that set international production quotas and prices—collapsed and coffee prices plummeted. Furthermore, the government continued to apply the official exchange rate to coffee exports (but not to other exports), denying the industry the benefits of the more advantageous rates of the new forex bureaus.

Coinciding with the collapse of world coffee prices, the government took the first step in liberalizing the Ugandan coffee market. In 1990 CMB's monopoly in the export of coffee was broken as four private cooperatives were licensed to export directly; however, low production and farm level productivity—many of the coffee trees were more than 40–50 years old and had reached the end of their economic life—continued to plague the coffee sector.

Because the domestic market is small, agricultural exports are the key to growth. Several government programs were intended to expand NTA exports. In late 1988 the government made it easier for private companies to retain foreign exchange earned for NTA exports and to use it to purchase imports. The general patterns of NTA exports have been quite erratic, however, and have been significantly influenced by exogenous factors, such as the 1990–91 drought in Sudan.

Manufacturing and Service Sector Performance

The industrial sector grew strongly in the late 1980s. It began (and remained) a small percentage of total GDP, but represented between 20 and 40 percent of the annual contributions to aggregate growth observed in the period 1986–92. Construction was the most buoyant part of the industrial sector, but manufacturing grew strongly during this period as well. The services sector represented about one-third of GDP throughout this period and grew at roughly the growth rate of GDP.

A main goal of the government in the late 1980s was to decrease Uganda's dependence on imported manufactured goods by rehabilitating existing enterprises. Run-down plant and equipment and shortages of spares and foreign exchange, however, continued to hamper the manufacturing sector's recovery. Growth in construction was strong but held back by a shortage of inputs such as cement, even though the requirements for basic construction are all produced locally.

The Current Situation: June 1992

Fiscal 1991–92 has been a difficult one in Uganda. Real GDP growth, which averaged more than 5 percent per year in the first five years of Museveni's regime, slowed to 3.6 percent as a drought reduced crop production. Coffee prices did not recover, and coffee export receipts fell to $117 million, one-third of the fiscal 1986–87 level. Imports fell to levels not seen since 1986. Donor countries slowed aid disbursements, necessitating government borrowing from the Bank of Uganda to finance a large fiscal deficit. The drought put upward pressure on food prices, and this, coupled with increased government borrowing, resulted in a setback on the inflation front as inflation increased to 42 percent. The shilling continued its depreciation on the *kibanda* market to 1,000 per dollar, a 76 percent fall in value from the previous year.

The new four-year Rehabilitation and Development Plan continues the government's aggressive public expenditure policy but emphasizes changes in the government's spending priorities. Resources are being switched out of the productive sectors into social infrastructure, primarily as a result of the government's determination to fight the HIV/AIDS epidemic. Water projects are also receiving a greater share compared to the previous Rehabilitation and Development Plan; fewer funds are available for manufacturing and agriculture.

The public is growing increasingly disillusioned with high-level corruption. The ministries of agriculture, commerce, and energy have figured prominently in continuing revelations of corruption and malpractice. Corruption is also reportedly hampering the sales of parastatals, because there is talk of delays designed to favor candidates with government links. Problems with corruption persist throughout the civil service, in which salaries are still too low.

On March 28, 1992, Dr. Crispus Kiyonga, the finance minister since November 1986, was sacked. A new joint ministry of finance and economic planning was formed. Kiyonga's replacement was Joshua Mayanga-Nkangi, formerly minister of planning and economic development. Nkangi pledged to get back on the path of fiscal and monetary discipline that Kiyonga had initially chosen.

Policy Dilemma

Economic growth during the first six years of the Museveni government was strong, especially when compared with Uganda's previous economic results. Now, in mid-1992, there is evidence that the engine of growth for that period has run out of steam. Foreign investment has trickled into Uganda, especially as expropriated properties are returned to their owners, but investor confidence remains low. Finance Minister Nkangi is committed to maintaining tight fiscal control in a period of lagging fiscal revenues. The scope for expansion without active private participation in productive investment, thus, is likely to be limited.

Francis Unyofu's department must devise an economic strategy to increase productive investment while maintaining fiscal and monetary discipline. The minister recognizes that this might require a reallocation of existing public investment funds and seeks recommendations for such reallocations if necessary.

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Sources

Francis Unyofu is a creation of the authors, but other details of Ugandan history are factual. Rather than interrupt the narrative, we credit here those sources from whom substantial information has been drawn. More detailed citations are available, when needed, from the authors.

All data in Appendix B are as presented in World Bank (1993 and 1996).

"Overview of Policies and Aggregate Performance: Fiscal 1987–88 to 1990–91" is drawn from Library of Congress (1992), EIU Country Profile (1988 and 1991), and various articles that appeared in *The New York Times, The Economist,* and *The Financial Times,* with precise citations available from the authors.

"The Current Political Situation: June 1992" is drawn mainly from EIU (1992).

Appendix B

Table B1. GDP by Sector at Constant 1991 Prices, Fiscal 1985–91.
(percent of GDP)

Sector	*1985–86*	*1986–87*	*1987–88 to 1990–91*	*1991–92*
Agriculture	*56.2*	*55.2*	*53.7*	*50.2*
Cash crops	3.8	3.5	3.3	3.4
Food crops	38.0	37.6	36.8	33.5
Industry	*10.3*	*11.3*	*12.5*	*13.8*
Mining and quarrying	0.1	0.1	0.2	0.3
Manufacturing	5.0	4.9	5.5	6.6
Coffee, cotton, sugar	0.5	0.5	0.6	0.9
Food products	0.6	0.6	0.8	0.8
Construction	4.3	5.4	5.9	5.9
Services	*33.5*	*33.5*	*33.9*	*36.0*
Trade	10.4	10.3	10.9	11.8
Transport and communication	3.9	4.0	4.1	4.2
General government	3.8	3.7	3.5	3.7
Education	4.0	3.8	3.6	3.6
Health	1.6	1.6	1.5	1.5
GDP at factor cost	*100.0*	*100.0*	*100.0*	*100.0*
o/w nonmonetary	35.8	35.3	33.6	30.1

Source: Statistics Department, Ministry of Finance and Economic Planning.

Table B2. GDP by Sector at Constant 1991 Prices, FY 1985–91
(average annual growth rates)

Sector	*1985–86*	*1986–87*	*1987–88 to 1990–91*	*1991–92*
Agriculture	*1.3*	*1.8*	*5.0*	*–1.1*
Cash crops	–16.4	–3.8	5.2	5.2
Food crops	5.3	2.6	5.0	–3.2
Industry	*–4.6*	*13.3*	*9.8*	*11.2*
Mining and quarrying	–12.2	–9.7	33.8	12.4
Manufacturing	–4.8	2.4	10.7	18.9
Coffee, cotton, sugar	–0.6	4.3	10.1	54.5
Food products	–5.6	12.3	12.2	9.0
Construction	–5.9	28.4	9.0	3.8
Services	*0.5*	*3.8*	*7.1*	*7.9*
Trade	–2.6	2.6	8.4	9.0
Transport and communication	5.1	7.0	6.9	4.5
General government	1.6	2.8	4.3	11.8
Education	0.6	0.2	5.1	1.5
Health	2.3	3.6	3.5	6.1
GDP at factor cost	*0.4*	*3.7*	*6.2*	*3.6*
o/w nonmonetary	4.5	2.3	3.8	–3.1

Source: Statistics Department, Ministry of Finance and Economic Planning.

Table B3: Contributions to Real GDP Growth by Expenditure, Fiscal 1985–91

Expenditure	*1985–86*	*1986–87*	*1986–87 to 1990–91*	*1991–92*
Consumption	128.3	–609.4	81.6	90.5
Private	125.1	–528.1	75.9	43.1
Public	3.4	–81.5	5.7	55.2
Gross domestic investment	13.1	–649.2	22.3	–19.7
Fixed capital formation	18.6	–1,232.5	12.8	–10.7
Private	247.9	–529.3	5.1	–22.0
Public	–87.8	–804.8	7.7	16.4
Net change in stocks				
Resource balance	–41.4	1,358.6	–3.9	29.2
Exports GNFS	4.6	54.8	1.7	24.1
Imports GNFS	45.6	–1,160.5	5.6	–11.6
GDP at market prices	100.0	100.0	100.0	100.0
Addendum: Growth rate in GDP at factor cost	–0.3	3.8	5.9	3.2

Source: Statistics Department, Ministry of Finance and Economic Planning, and authors' calculations.

Table B4. GDP by Expenditure at Constant 1991 Prices
(percent of GDP)

Expenditure	*1985–86*	*1986–87*	*1987–88 to 1990–91*	*1991–92*
Consumption	104.9	104.0	101.4	101.6
Private	94.0	93.1	91.2	89.8
Public	10.9	10.9	10.2	11.8
Gross domestic investment	12.5	14.7	16.6	14.6
Fixed capital formation	12.5	16.5	16.7	14.7
Private	9.0	10.8	10.6	8.0
Public	3.5	5.7	6.0	6.8
Net change in stocks	0.0	0.3	–0.0	–0.1
Resource balance	–15.7	–20.2	–18.2	–14.5
Exports GNFS [a]	8.3	7.7	7.0	7.2
Imports GNFS	24.0	27.9	25.2	21.8
GDP at market prices	100.0	100.0	100.0	100.0

Source: Statistics Department, Ministry of Finance and Economic Planning.
[a] Goods and nonfactor services.

Table B5. GDP by Expenditure at Constant 1991 Prices.
(average annual growth rates)

Expenditure	*1985–86*	*1986–87*	*1987–88 to 1990–91*	*1991–92*
Consumption	2.0	2.9	5.4	4.6
Private	2.2	2.8	5.6	2.5
Public	0.5	3.7	3.8	24.0
Gross domestic investment	1.8	22.0	9.1	–6.9
Fixed capital formation	2.5	37.1	5.2	–3.7
Private	46.0	24.3	3.3	–14.2
Public	–42.1	70.0	8.6	12.5
Net change in stocks				
Resource balance	4.4	33.4	1.4	–10.3
Exports GNFS [a]	0.9	–3.5	1.6	17.1
Imports GNFS	3.2	20.7	1.5	–2.7
GDP at market prices	–0.3	3.8	6.4	3.2

Source: Statistics Department, Ministry of Finance and Economic Planning.
[a] Goods and nonfactor services.

Table B6. Production of Principal Commodities, 1986–92

Commodity	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Sugar *(tons)*	0	0	7,535	15,859	28,915	42,456	53,539
Beer *(thousands of liters)*	6,603	16,484	21,139	19,516	19,420	19,529	18,718
Textiles *(thousands of square meters)*	9,733	10,465	11,067	11,589	8,172	8,901	9,650
Cement *(tons)*	16,376	15,904	14,960	17,378	26,920	27,138	37,881

Source: Statistics Department, Ministry of Finance and Economic Planning.

Table B7. Exports of Cash Crops, 1986–92

	1986	1987	1988	1989	1990	1991	1992
Coffee							
Tons	140,800	148,153	144,254	176,453	141,489	124,819	119,006
Value *(thousands of US$)*	394,200	307,535	265,279	262,811	140,384	117,641	95,372
Percent of total exports	96.9	92.2	99.6	94.6	79.0	67.9	63.1
Tea							
Tons	2,800	2,100	3,079	3,195	4,760	7,018	7,816
Value *(thousands of US$)*	3,100	1,900	3,079	3,195	3,566	6,780	7,721
Percent of total exports	0.8	0.6	1.2	1.2	2.0	3.9	5.1
Cotton							
Tons	4,875	3,443	2,088	2,321	3,808	7,819	7,535
Value *(thousands of US$)*	5,086	4,097	2,968	4,020	5,795	11,731	8,218
Percent of total exports	1.3	1.2	1.1	1.4	3.3	6.8	5.4
Tobacco							
Tons	0	0	39	490	2,269	2,467	2,322
Value *(thousands of US$)*	0	0	58	569	2,821	4,540	4,333
Percent of total exports	0.0	0.0	0.0	0.2	1.6	2.6	2.9

Source: Statistics Department, Ministry of Finance and Economic Planning.

Table B8. Balance of Payments, FY 1985–91
(in $US millions)

	1985–86	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92
Exports GNFS	389.0	406.0	323.9	304.0	245.7	198.9	195.1
o/w coffee	360.0	365.0	285.9	276.0	159.0	127.0	116.9
Imports GNFS	446.0	600.0	682.0	712.0	675.8	670.5	581.5
o/w petrol	61.0	63.0	69.0	76.0	78.0	87.0	57.0
Trade balance	–57.0	–194.0	–358.1	–408.0	–430.1	–471.6	–386.4
Net factor income	–44.0	–47.0	–57.0	–66.0	–77.0	–58.2	–87.0
Current private transfers	101.0	100.2	120.0	114.0	78.0	80.5	135.9
C/A balance (excl. grants)	0.0	–140.8	–295.1	–360.0	–429.1	–449.3	–337.5
Official transfers	31.0	40.1	92.4	131.0	152.7	261.9	206.1
C/A balance (incl. grants)	31.0	–100.7	–202.7	–229.0	–276.4	–187.4	–131.4
Overall balance	24.0	–78.7	–64.7	–101.9	–44.1	–101.3	–121.1

Sources: Bank of Uganda and International Monetary Fund.

Table B9. Exchange Rates, FY 1985–91.

	1985–86	*1986–87*	*1987–88*	*1988–89*	*1989–90*	*1990–91*	*1991–92*
Official rate *(USh/$)*	11	22	60	170	320	558	983
Average bureau rate *(USh/$)*	30	110	285	474	662	780	1,130
Premium bureau/official *(percent)*	166	407	376	178	107	40	15

Sources: Bank of Uganda; Statistics Department, Ministry of Finance and Economic Planning
Note: Forex bureaus were legalized in July 1990.

Table B10. Financial Indicators, FY 1986–91.

	1985–86	*1986–87*	*1987–88*	*1988–89*	*1989–90*	*1990–91*	*1991–92*
(annual growth rates)							
Domestic credit	70	141	195	183	16	51	58
Broad money (M2)	150	91	212	125	57	47	–84
(percent)							
M2/GDP	10.2	6.8	6.8	6.7	6.8	7.5	7.6
Claims on private sector[a]	44	50	56	50	51	61	88
Inflation	148	217	168	131	45	25	42
Nominal interest rate[b]			38	43	39	37	32
Real interest rate			–130	–88	–6	12	–10

a. Percent of total domestic credit.
b. Ninety-one-day treasury bill, end-year basis.
Sources: Bank of Uganda; Statistics Department, Ministry of Finance and Economic Planning.

Table B11. Central Government Operations, FY 1985–91.
(percent of GDP at market prices)

	1985–86	*1986–87*	*1987–88 to 1990–91*	*1991–92*
Total revenue	6.4	4.6	6.7	6.7
Tax revenue	6.3	3.8	6.1	6.2
o/w coffee	4.3	1.6	0.9	0.1
Total expenditure	10.7	8.8	12.8	20.9
Current expenditure	7.9	5.5	6.9	11.6
o/w wages and salaries	1.2	1.0	1.1	1.7
Capital expenditure	2.7	3.3	5.7	9.0
Overall deficit (cash)	–4.2	–4.2	–6.7	–14.1
Financing				
Budgetary grants	1.1	0.4	2.5	7.0
External	1.0	0.3	4.1	5.1
Domestic	2.1	3.4	0.2	2.0

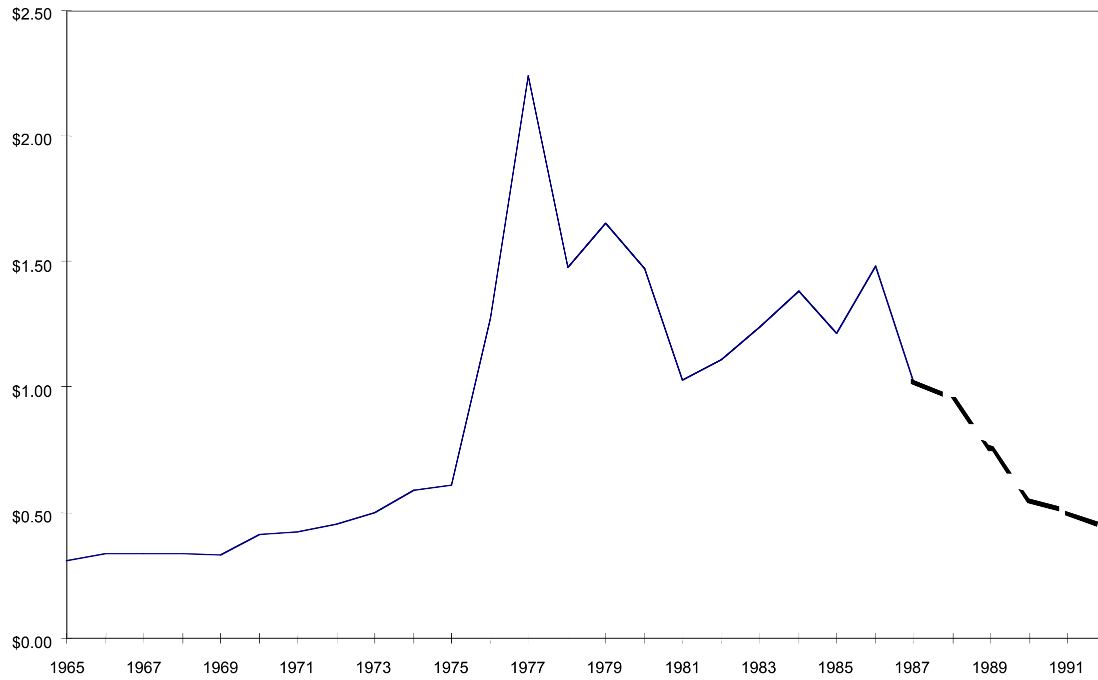
Sources: Ministry of Finance and Economic Planning, Statistics Department, and the International Monetary Fund

Table B12. Destination of Central Government Expenditure
(percent of total expenditures)

	1986–87	*1987–88 to 1990–91*	*1991–92*
Total current expenditure	62.5	54.8	56.4
General public services	11.5	9.4	
Defense and security	26.4	23.7	
Education	7.6	8.1	
Health	1.9	2.4	
Other social services	3.6	1.3	
Economic services	6.9	3.8	
Interest payments	4.5	6.2	15.7
Total capital expenditure	37.5	45.2	43.6
General public services	6.6	18.9	
Defense and security	1.4	2.2	
Education	4.0	2.1	
Health	0.7	1.5	
Other social services	2.1	1.5	
Economic services	22.8	19.1	

Source: International Monetary Fund.

Chart B1. Price of Ugandan coffee, 1965–92.
(US$/pound)



Note: The dotted portion of the line indicates the period of time addressed in part B of this case.

Postscript: Post-Conflict Recovery in Uganda, 1995

Since launching the first Reconstruction and Development Plan in 1987, Uganda has made steady progress in macroeconomic stabilization. After a brief setback in fiscal 1991–92, the government introduced a policy shift to encourage private saving and investment. The components of this policy were:

- Foreign exchange controls have been eliminated, and the shilling is determined on the market.
- Marketing of cash crops has been opened to competition, although in practice the old marketing boards still market a large share of the crops.
- Price controls have been eliminated. The role of the government in cash crops has subsequently shifted toward supervision and quality control.
- The Ugandan Revenue Authority was established in an attempt to broaden the government's revenue base.
- The size of the civil service and army were cut in half.
- The Ugandan Investment Authority was established to provide information and licenses, greatly simplifying the old system.
- The Bank of Uganda stopped controlling the level of interest rates.

Uganda has achieved a degree of macroeconomic stability. Vast improvements have been made on the inflation front as reduced fiscal deficits and restrictions on government borrowing from the Bank of Uganda brought inflation to below 10 percent by 1993, a far cry from the 200 percent rate observed in the mid-1980s. Exporters are actually having to deal with an appreciating Ugandan shilling, something unheard of for a generation.

Production has responded to the economic and political stability of the Museveni regime. Growth in real GDP picked up again after a disappointing fiscal 1991–92, averaging between 5 and 10 percent per year, as all formal sectors—agriculture, industry, and services—expanded. In particular, the food crop sector, recently freed from a myriad of government regulations and in position to export to drought-stricken areas of Africa, posted strong gains (12.3 percent increase) in fiscal 1992–93. The manufacturing sector grew almost 15 percent in fiscal 1993–94, although crumbling infrastructure continues to be a problem. To be sure, some infrastructure has been renovated; many roads, in particular, have been completely resurfaced.

The value of exports continued to fall until the world price of coffee recovered in fiscal 1994–95. Export diversification, however, has been quite successful: nontraditional exports doubled in 1993 and are currently about 30 percent of total exports. A large gap, however, still exists between exports and imports.

Although macroeconomic stability and the removal of various disincentives have helped Uganda recover from its crisis, the country still faces a number of economic problems. Fore-

This is the third part of a three-part case created by Frank Warnock and Patrick Conway of the University of North Carolina at Chapel Hill on the subject of Ugandan economic growth. Thanks to Philip English and Jorge Araujo for useful comments on its content.

most are the low levels of investment and savings, which by 1995 increased to 18 and 5 percent of GDP, respectively. At the heart of the problem is the weak performance of the financial sector, which is still far too narrow, consisting only of the seriously undercapitalized Bank of Uganda, ten commercial banks—still dominated by the now privatized Uganda Commercial Bank—and two development banks. Bad loans are taking their toll on the banking system, as the widening spreads between deposit and lending rates point to profitability problems. Moreover, the public is still somewhat wary of the financial sector, although the ratio of time deposits to GDP has risen by 1993 to 2.3 percent of GDP. A financial reform program has been designed with the World Bank. Among the recommendations of that program is a recapitalization of the Bank of Uganda to enable a strengthening of regulatory powers.

The government, even with the establishment of the Revenue Authority, still suffers from low revenue collection. Foreign aid finances 60 percent of government spending. As HIV/AIDS continues to sap the resources of the nation, there is a great need for human capital investment, particularly in the areas of health and education. Government spending for health and education has increased steadily in real terms in the 1990s, mostly to increase salaries. Spending in these areas as a share of GDP still falls short of averages for Sub-Saharan Africa.

Post-Conflict Recovery in Uganda

Teaching Notes

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Post-Conflict Recovery in Uganda
Teaching Notes
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Contents

Post-Conflict Recovery and Uganda Teaching Notes 1

The Big Picture 1

Part A 1

Part B 3

Post-Conflict Recovery in Uganda
Teaching Notes

This case has been written to facilitate analysis of economic growth prospects in developing economies, with special emphasis on those emerging from military or political conflict. We have used this case in both classroom and workshop settings and in these notes provide suggestions for its effective use.

The Big Picture

We have written the case in three parts. Part A discusses the evolution of the Ugandan economy from independence to 1987. Part B examines the period 1987–92. The last part is a postscript, providing details of more recent policy choices as well as continuing problems for the future. The case has two "decision points" in 1987 and 1992, corresponding to the end of parts A and B, respectively. At these points, the workshop participants are asked to analyze the situation and provide recommendations. Parts A and B should be distributed and read in advance of the session at which they will be discussed, although part B should not be handed out until the discussion of part A is complete.

This case will work best as a teaching medium if undertaken in parts. We recommend that part A be examined in a 1.5-hour session. The product of that session should be a list of recommendations for the Ugandan government to implement in order to achieve its goal as stated in the case. In a subsequent 1.5-hour session, although not necessarily immediately following, the group can examine part B. Once again, the product of the session should be enumeration of policies to attain the government's goals. The last part, the postscript, can be handed out at the end of the second session for the participants' edification and comment, if time permits.

We have chosen this structure because we believe that the issues of economic growth in Uganda can be separated into two stages. The first, bringing productive resources idled by conflict back into operation, dominates part A. The second, the need for investment in social capital, infrastructure, and productive capacity to sustain economic growth, is more evident in part B. You may not view this distinction as important in your own use of the case, but you will find that the following notes are keyed to that distinction.

Part A

Uganda's history (with the possible exception of Idi Amin) is not common knowledge, so we would advise beginning the case discussion with an introductory period focusing on the political and economic situation in Uganda from 1962 to 1987. Useful initial questions to ignite comment might include:

- Where would you rather live: Uganda in 1962 or Uganda in 1987?
- What is the quality of life in Kampala in 1987?

This instructor's note has been prepared to accompany a case in three parts created by Frank Warnock and Patrick Conway of the University of North Carolina at Chapel Hill on the subject of Ugandan economic growth. Thanks to Philip English and Jorge Araujo for useful comments on its content.

- Has Uganda provided a successful example of economic growth since independence?

These questions will lead to an enumeration of the political and military crises of the intervening period. The most important points for the group to take away from this discussion is the strong potential of the economy in 1962, especially in agricultural crops for the world market, and the effect of the crisis in destroying productive capacity (physical and social capital) and idling economic resources. Most participants will recognize the direct effect of war and destruction in idling resources but may not recognize the indirect effects through the manipulation of relative prices of export crops and foreign exchange to meet budgetary needs. You could introduce this concept through a question such as:

- The fields of coffee growers were for the most part unscathed by the crisis, but the production and export of coffee nevertheless fell steadily after 1965. Why?

Once a common base of understanding is established among workshop participants, you can turn to the task at hand. Have the group identify the actor (Francis Unyofu) and the task (strategy to increase economic activity while maintaining macroeconomic stability). Defining terms and agreeing on ways to measure the goal are usefully done at this early stage.

If you as instructor have set the goal of economic growth, it will be helpful to define possible sources of growth and possible markets for increased production. For example, this discussion could lead to the following matrix:

Sources:	*Agriculture*	*Manufacturing*	*Services*
Ugandan			
East African			
World			

Each entry in the matrix is a possibility, although some are more likely. For example, agriculture in Uganda implies coffee and tea, but those only find sufficient buyers on a world market. Conversely, manufacturing can probably not compete on the world market initially and will have to focus on the local (Ugandan or perhaps East African) market.

For a change of pace, at this point we recommend a bit of role playing. Once the potential sources of growth are identified, designate individuals within the workshop to play the parts of producers in those areas, for example, a smallholder in coffee production, textile mill operator, or hotel manager. Have each of them describe what incentives are necessary for them to expand their operations. Do not limit them to economic incentives, because political security should be quite important. You can list the economic incentives by sector for use in the policymaking phase of the workshop. Encourage questioning of the role players by those not taking a role. Perhaps, designate the others as members of a presidential fact-finding commission.

The goal of the session is to come up with a strategy for encouraging economic growth. Build on the results of the role playing to define candidate strategies. (These will almost certainly include export-oriented and import-substituting strategies but may also include government stimulus.) Ask for the pros and cons of each, listing them and eliciting comments as you go. These comments should include discussion of the implications of each pro and con for macroeconomic stability. In the end, ask for a vote. If time permits, look for ways to build a consensus strategy (i.e., try to address the objections of the minority).

To wrap up, ask whether the choice of strategy was driven in the minds of participants by the specific situation in Uganda. Did the existence of unused resources (excess capacity) make one strategy or another more attractive? If so, why? Is this a strategy that Uganda should maintain for decades or only for the near future?

Part B

We presume that workshop participants will already have worked on part A and no need exists for further review of Uganda's economic history. Some review of the analysis conducted in the first session will, however, be helpful.

The initial question for this session could mirror that of the first session, for example:

- Where would you rather live: Uganda in 1986 or Uganda in 1992?
- What is the quality of life in Kampala in 1992?
- Has Uganda been a successful example of economic growth since 1987?

The goal of this opening question is to *(a)* put the participants "in character," that is, thinking as Ugandans, and *(b)* focus on the economic growth and quality-of-life aspects of the economy. After responding, the participants can answer "why." These answers will fill out the group's shared knowledge of economic performance since 1986.

You will note that we have divided the economic performance tables in the appendix of this section into four periods. The first (fiscal 1985–86) represents the situation at the end of part A. The second (fiscal 1986–87) represents the impact of the policies chosen. The third period (fiscal 1987–88 to fiscal 1990–91) was one of relatively stable performance, which is indicated by the annual average of those years. The fourth period (fiscal 1991–92) may be considered the present for purposes of decisionmaking in the case. A written summary for this final period is presented in the section entitled "The Current Situation: June 1992" near the end of part B.

Next, we recommend reviewing the policy decisions of the first session and comparing those with the policies undertaken by the Ugandan government. Did the Ugandans follow your advice? It is important to note both similarities and differences. You may ask the participants to speculate on why the differences occurred.

It is important to highlight early on the apparent inconsistency in the sets of reforms put forward in this part. Promises of fiscal balance occur side by side with increased public investment and increased wages for public sector workers. Whatever the merits of the latter policies, participants in the workshop should recognize the evident tension. As you proceed, you can then ask what impact these tensions had on the economy (i.e., inflationary pressure, real exchange rate appreciation, and increased foreign indebtedness).

Be sure to define the task for this session early on. Focus on both parts of the task. "Increase productive investment" need not be capital stock but could also be human capital. For what reason must "fiscal and monetary discipline" be maintained? Are fiscal and monetary discipline independent constraints, or are they related? If so, how?

You could mirror the structure of the first session by playing the roles of various potential investors (agricultural, manufacturing, and service as well as private domestic, government domestic, and foreign). What will be necessary to encourage such investment? Alternatively, for a change of pace, designate small groups to devise a strategy for encouraging investment

by sector (agricultural, manufacturing, and service). In this case, task the groups to identify a strategy targeted to that sector. They should identify present constraints on investment, incentives they would offer to investors, and the identity of the investor they are targeting (government, private domestic, or foreign).

Participants may find themselves returning to the prescriptions offered in part A as recommendations for this part as well. This is useful and important to understanding the Ugandan experience. You can pursue this line with such questions as:

- From your perspective (manufacturers), has foreign exchange reform improved your access to currency to purchase essential inputs? Why or why not?
- From your perspective (agricultural), has reform of the Uganda Coffee Marketing Board improved incentives to coffee growers?

After these activities, return to a plenary session. Pull together a list of constraints to investment. These should fall broadly into the following categories:

- Unprofitable to invest
- Foreign exchange costs
- Insufficient infrastructure
- Insufficient labor skills for wage paid
- Foreign competition at lower prices
- Government competition at lower prices
- Lack of access to economic financing.

This list can be linked directly to a list of incentives to productive investment. Collect a list of such incentives, and evaluate each for its effect on fiscal and monetary discipline.

A similar role play will be useful in examining the incentives to domestic saving. You could begin with a question such as:

- This investment must be financed. To whom should we turn for financing?

Then ask for the identities of potential financing sources. Designate an individual to represent each source, and explore the potential for increased financing from each. Do not allow the stock answer "let the government finance it." Given that the government is already in fiscal deficit, explore where the government will in turn obtain financing.

Call for proposed strategies, look for common ground among them, and encourage participants to forge a consensus strategy. If a number of strategies remain, conduct a vote for the preferred strategy. If time permits, designate one (or more) participants as the president and his advisors. Have the others present the strategy to him, and ask for his critique of it.

Wrap up this session with a review of the beginning and ending points of discussion. Highlight the differences in strategies derived in parts A and B, as well as any similarities.

Distribute the postscript so the participants may see what the Ugandans actually did in 1992.