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**Report No: 19386**

# PERFORMANCE AUDIT REPORT

## UGANDA

## FIRST STRUCTURAL ADJUSTMENT CREDIT (SAC 1)
(Credit 2314-UG)

and

## SECOND STRUCTURAL ADJUSTMENT CREDIT (SAC 2)
(Credit 2608-UG)

June 8, 1999

*Operations Evaluation Department*

## Currency Equivalents (as of June 1998)

*Currency Unit = Uganda Shilling*

| | | |
|---|---|---|
| 1995 | US$1.00 | Ush 1,000 (1995) |

## Government Fiscal Year: July 1 - June 30

(FY96 and 1995/96 = July 1, 1995 to June 30, 1998)

## Abbreviations and Acronyms

| | |
|---|---|
| ADF | African Development Fund |
| ASAC | Agricultural Sector Adjustment Credit |
| CAS | Country Assistance Strategy |
| CSR | Civil Service Reform |
| DAPCB | Departed Asians Property Custodian Board |
| EFMP | Economic and Financial Management Project |
| ERC | Economic Recovery Credit |
| ERP | Economic Recovery Program |
| ESAF | Enhanced Structural Adjustment Facility |
| ESW | Economic and Sector Work |
| FSAC | Financial Sector Adjustment Credit |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| ICR | Implementation Completion Report |
| ICBP | Institutional Capacity Building Project |
| IDA | International Development Association |
| IMF | International Monetary Fund |
| MFEP | Ministry of Finance and Economic Planning |
| MOF | Ministry of Finance |
| ODA | Overseas Development Administration, UK |
| OED | Operations Evaluation Department |
| PE | Public Enterprise |
| PPA | Priority Program Areas |
| SAC | Structural Adjustment Credit |
| SDR | Special Drawing Right |
| TA | Technical Assistance |
| TIN | Taxpayer Identification Number |
| UCDA | Uganda Coffee Development Authority |
| UIA | Uganda Investment Authority |
| URA | Uganda Revenue Authority |

| | |
|---|---|
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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
*Operations Evaluation*

June 8, 1999

**MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

**SUBJECT: Performance Audit Report on Uganda: First and Second Structural Adjustment Credits (Credits 2314-UG and 2608-UG)**

Attached is the Performance Audit Report (PAR) on Uganda Structural Adjustment Credit (SAC1, Cr. 2314-UG, for US$125 million equivalent, approved in November 1991) and Uganda Second Structural Adjustment Credit (SAC2, Cr. 2608-UG, for US$80 million equivalent, approved in May 1994). Substantial cofinancing was available for both SAC1 and SAC2: the African Development Fund, Norway, the Overseas Development Administration and Switzerland provided US$ 69.4 million for SAC1, and Norway provided US$ 8.9 million for SAC2. Both credits were fully disbursed. SAC1 closed in July 1994, six months behind schedule; SAC2 closed three months late, in March 1996.

**Objectives**

As the flagship operation of the Bank's country assistance strategy, SAC1 was geared to address perceived policy, institutional, infrastructure and financial constraints. The credit's objective was to foster private sector development (PSD)and improve public sector management (PSM). SAC1's specific PSD objectives and related conditionalities were to improve the trade regime by easing export and import restrictions and removing implicit exchange rate subsidies; to promote investment by establishing an Investment Authority to administer a revised Investment Code; and to speed up the return to former owners of expropriated property held by the Custodian Board. In the PSM sphere, SAC1's objectives were to improve government revenue collection by establishing an independent revenue authority; to reorient public expenditure to high priority sectors; and to support civil service reform. SAC2 was designed mainly to follow up on the SAC1 reforms. Its objectives were therefore the same as SAC1's. The only significant shift was that SAC1 sought further liberalization of the coffee and cotton sectors including a restructuring of the ginning industry.

**Outcomes, Impact and Sustainability**

Both projects' PSD objectives were substantially achieved. Deregulation of the foreign exchange and trade regimes went well beyond the conditions of both SACs. Coffee and cotton sector reforms were implemented. The bulk of the actions to ensure the return of, or fair compensation for, expropriated properties took place under SAC1. GOU adopted a new Investment Code and set up the Uganda Investment Authority (UIA) to administer the Code. SAC actions for reducing tax exemptions, setting up the Uganda Revenue Authority (URA) as an autonomous agency, and improving tax administration helped boost tax revenues from about 7 percent of GDP in FY92 to about 11 percent in FY96.

In the public expenditure area, the SACs helped to protect operations and maintenance expenditures and high priority projects. They also helped strengthen capacity within the Ministry of Finance and Economic Planning and to embed improvements in forward budgeting and expenditure programming.

Under SAC1, civil service numbers were cut by 100,000, civil service wages were increased, and the number of Ministries was reduced. Under SAC2, progress was made in monetizing housing and other civil service benefits.

Uganda's economic and recovery during FY92-96 (the SAC1 and 2 period) was substantial: GDP and per capita GDP growth averaged 7 and 4 percent per year respectively. Poverty was reduced on a headcount basis from 56 percent to 46 percent between 1992 and 1995, and a number of social indicators improved. An array of policy indicators also registered significant improvement: inflation fell (from over 35 percent in FY92-93 to below 7 percent in FY94-97), the exchange rate stabilized, international reserves grew, government revenues rose from 7 to 10 percent of GDP, and the fiscal deficit (excluding grants) fell from 15 percent in FY92 to 6 percent by FY97.

While the specific reforms adopted under SACs 1 and 2 are likely to be sustained, the audit is less sanguine about the sustainability of the rates of growth and poverty reduction achieved in the past decade. The audit's concerns relate to the unfinished agenda of adjustment, the limited breadth and depth of ownership of the reform agenda by government and civil society, political factors such as decentralization and the pace of democratization in Uganda, uncertainty about the future sources of growth, the country's aid absorption capacity, corruption both petty and grand, and distributional issues.

**Ratings**

The ICRs rated *outcomes* for the two SACs as satisfactory. The audit rates SAC1's outcome as highly satisfactory based on its high degree of relevance and efficacy and fully satisfactory cost-effectiveness. In view of SAC2's somewhat lower relevance and circumscribed scope, high efficacy and satisfactory cost effectiveness, the audit rates SAC2 outcome as satisfactory. The ICRs rated the *institutional development (ID) impact* of both operations as "partial." Neither SAC went in for extensive capacity building, which was achieved largely through complementary TAs. However, in view of the extensive changes introduced under SAC1 in the "rules of the game" (for example in foreign exchange and coffee marketing) and organizational restructuring (in the URA, UIA, coffee and cotton marketing), the audit rates its ID impact as "substantial." The ID impact of SAC2 is rated as "modest." The ICRs for SACs 1 and 2 judged the *sustainability* of project benefits to be likely. In view of the audit's concerns (outlined in the previous paragraph) about other important elements of sustainability, the audit rates sustainability as uncertain for both SAC1 and SAC2. The ICRs rate *Bank performance* as satisfactory for both operations. In view of the Bank's choice of the right priorities for SAC1, the ambitiousness of the operation's goals, the program's strong strategic thrust, the risks taken and good supervision, the audit upgrades the rating of Bank performance under SAC1 to highly satisfactory. The audit agrees with the ICR's satisfactory rating for Bank performance under SAC2.

**Lessons**

The audit's main lessons are as follows: (a) SACs as flagship operations of the Bank's country assistance strategy need to be truly strategic instruments geared to alleviating policy and institutional constraints. (b) Successful adjustment operations, such as SAC1, may be built on important foundations laid by preceding (sometimes unsatisfactory) operations. (c) Uganda's Government needs to be re-engineered (not merely downsized or reorganized) to get a better match between government objectives and civil service capabilities. (d) The Bank and Government should give high priority to monitoring service delivery and incidence, through incidence and end-use surveys. (e) Policy reform agendas and TA and capacity building priorities and sequencing need to be better integrated.

# Contents



This report was prepared by Robert P. Armstrong (Consultant) and reviewed by Jayati Datta-Mitra (Task Manager). The project was audited in June 1998. Barbara Yale provided administrative support.

# Preface

This is a Performance Audit Report (PAR) on Uganda Structural Adjustment Credits I and II (SAC1 and SAC2). SAC1, for an amount of US$126 million equivalent (including IDA reflows), was approved in November 1991 and closed in July 1994. SAC2, for an amount of US$80 million equivalent, was approved in May 1994 and closed in March 1996. Substantial cofinancing (US$ 69.4 million) was available from the African Development Fund (ADF), Norway, the Overseas Development Administration (ODA), and Switzerland for SAC1. Norway provided US$ 8.9 million as cofinancing for SAC2.

The PAR is based on the Implementation Completion Reports (ICRs) prepared by the Africa Regional Office (both issued in June 1997), President's Reports for the projects, the legal documents, summaries of the Board discussions, project files, and related economic and sector work. It is also based on discussions in both Uganda and the United States with staff of the Government of Uganda (GOU), World Bank, IMF, other donors, and representatives of the business and academic communities. An OED mission visited Uganda in June/July 1998. The kind cooperation and assistance of all those who contributed information, reflections, and insights is gratefully acknowledged.

The PAR presents a more detailed and critical review of the SACs than the ICRs, focusing, in particular, on the appropriateness of the objectives and their consistency with the Bank's overall country assistance strategy for Uganda, the links and complementarities between the SAC and other Bank instruments (especially technical assistance and other adjustment operations), the performance of key variables compared to targets, and sustainability issues. The PAR pays less attention to implementation and covenant compliance because the ICRs deal with these matters adequately.

The draft PAR was sent to relevant ministries and government agencies in Uganda, as well as to the co-financiers. Brief comments were received from the ADB and the Swiss Federal Office for Foreign Affairs; the latter is attached as Annex G. No other comments were received.

# Ratings and Responsibilities

**Performance Ratings**

| | *SAC I (Cr. 2314-UG)* | *SAC II (Cr. 2608-UG)* |
|---|---|---|
| **Outcome** | Highly Satisfactory | Satisfactory |
| **Sustainability** | Uncertain | Uncertain |
| **Institutional Development Impact** | Substantial | Modest |
| **Bank Performance** | Highly Satisfactory | Satisfactory |
| **Borrower Performance** | Highly Satisfactory | Satisfactory |

**Key Project Responsibilities**

| *SAC I* | *TM* | *Division Chief* | *Director* |
|---|---|---|---|
| Appraisal | Oey Meesook | K.Y. Amoako | Francis Colaço |
| Midterm Review | Emanuel Ablo | Michael Carter | Francis Colaço |
| Completion | I. Alikhani | Roger Grawe | James Adams |
| *SAC II* | *TM* | *Division Chief* | *Director* |
| Appraisal | Emanuel Ablo | Michael Carter | Francis Colaço |
| Midterm Review | Ritva Reinikka | Roger Grawe | Francis Colaço |
| Completion | Allister Moon | Robert Blake | James Adams |

| | |
|---|---|
| ICR for SAC I was prepared by: | Uganda Resident Mission |
| ICR for SAC II was prepared by: | Allister Moon |

# 1. Introduction

1.1 When the National Resistance Movement (NRM) came to power in Uganda in 1986, after 15 years of economic mismanagement and civil war, GDP growth was negative, many skilled Ugandans had fled the country, the private sector had contracted rapidly, public sector delivery was poor or nonexistent despite a bloated civil service, the country faced large internal and external imbalances, and inflation was well above 70 percent. In May 1987, following a brief experiment with interventionist policies, the NRM adopted an Economic Recovery Program (ERP) with the help of the Bank and the Fund. The program, designed to stabilize and restructure the economy and put it on the path to recovery, focused on improving demand management, liberalizing trade, raising public revenues, and restructuring public expenditures. Though the ERP was supported by two Economic Recovery Credits (ERCs 1 and 2), implementation of the program was partial and the results modest.

1.2 Even though ERC2 did not close till June 1993, recognition of continuing problems involving a low revenue ratio to GDP, unplanned public expenditures, the state monopoly of coffee marketing, an overstaffed and underpaid civil service, and a restrictive regulatory framework that discouraged private sector investment, prompted the Bank to include these issues in a policy reform agenda supported by a new adjustment operation, SAC1. The credit also supported the return to their original owners of confiscated properties held by the Departed Asians Property Custodian Board.

1.3 In 1992, while ERC2 and SAC1 were still in operation, a severe macroeconomic crisis occurred when the government failed to adjust aggregate expenditures in response to a shortfall in expected aid flows. The President, calling for an end to inflation through stricter demand management policies, merged the ministries of Finance and Economic Planning and restructured his economic management team. The subsequent sharp correction in the fiscal stance led to a dramatic fall in inflation by the first half of FY93. Since this gain in stabilization was seen as fragile, the Bank reinforced its support of the Ugandan program with a fresh structural adjustment operation, SAC2, that focused on five areas: regulatory reform, divestiture of Custodian Board properties, domestic revenue mobilization, prioritization of public expenditures, and civil service reform.

1.4 This audit's objective is to determine whether the two SACs and the Ugandan adjustment process were as relevant and successful as the ICRs assess them to be, and whether the two operations, looked at as part of one continuous longer-term adjustment process, yield lessons of experience beyond those identified by the ICRs, each of which is tied to an individual adjustment operation.

# 2. Objectives And Design Of The Credits

### Initial Conditions For SAC1

2.1 The two SACs built upon important foundations laid by previous IMF stabilization and Bank adjustment operations—notwithstanding that OED judged ERCs 1 and 2 to have had unsatisfactory outcomes—and both operations were supported by other overlapping and highly complementary Bank adjustment and technical assistance (TA) operations (see para. 2.14).

2.2 The identification and design of SAC1 dates from September 1990, when a "brainstorming session" on its possible dimensions was held between GOU officials and the Bank's country team. SAC1's objectives and conditionalities evolved steadily over the next 15 months, until Board approval of the operation in December 1991.

2.3 By 1991, Uganda was well advanced in some areas of recovery and policy reform but lagged seriously in others. Key elements of the adjustment program undertaken between 1987-91 included a series of devaluations, budget deficit reductions, legalization of the sale and purchase of foreign currency, removal of price controls, reduction of controls on domestic and external trade, and streamlining of industrial licensing procedures. These efforts, in combination with the restoration of security in most of the country, resulted in reductions in inflation (from 233 percent to 29 percent) and a GDP growth rate averaging about six percent annually.

2.4 Notwithstanding this progress, the Bank's Country Strategy Paper (CSP) of 1991 identified several areas where policy reform was insufficient. Government revenues were considered to be "unacceptably low" at 6 percent of GDP, and the size and allocation of government expenditures were distorted, with about a third assigned to military purposes. Inflation was still high and the official exchange rate overvalued. The country's physical and social infrastructure still required considerable improvement after years of neglect, Ugandan agriculture and exports needed to diversify and reduce their reliance on coffee, the banking system was not adequate to meet private sector needs, and the Government's capacity to manage and monitor the economy was severely limited by an unmotivated, inadequately paid civil service. At the same time, the economy faced adverse trends in the terms of trade, high debt service requirements, and low international reserves. The 1991 CSP therefore focused on Uganda's requirements for substantial quick-disbursing (QDA) and project aid.

### SAC1 Objectives and Conditions

2.5 The Bank's country assistance strategy of the early 1990s was geared to address these perceived policy, institutional, infrastructural and financial constraints. SAC1 was, in effect, the "flagship" operation of the country strategy: its US$125 million accounted for half of the Bank's projected total lending level, and its conditions addressed most of the critical constraints mentioned above. SAC1 had six components: three geared to fostering private sector development (PSD) and three geared to improving public sector management (PSM).

2.6 The PSD-oriented objectives/conditions were aimed at:

1) improving the trade regime by further easing export and import restrictions and removing implicit exchange rate subsidies enjoyed by some importers (specific measures included repealing industrial and import licensing requirements, eliminating the Open General Licensing (OGL) and Special Import Program (SIP) systems, and introducing the foreign exchange auction as a means of allocating SAC monies);
2) promoting investment by establishing an Investment Authority to administer incentives under the Investment Code; and
3) speeding up the resolution of claims on Custodian Board properties, i.e. facilitating the return of, or the payment of compensation for, properties expropriated under the Amin regime.

2.7 The PSM-oriented measures were aimed at:

1) improving Government revenue collection by establishing an independent Uganda Revenue Authority (URA) and improving tax policy by reducing tax exemptions and lowering the income tax threshold;
2) re-orienting public expenditure by ensuring high priority for expenditures on primary health, education, water supply, road maintenance, and agricultural research and extension; and
3) supporting a major program of civil service reform (CSR).

## Initial Conditions and Bank Strategy Context for SAC2

2.8 SAC2 had a long gestation period spanning some 20 months between its identification (in an Executive Project Summary) and Board approval in May 1994. The two year period preceding Board approval saw considerable progress in policy reform in Uganda, on both the stabilization and adjustment fronts. In particular, all the SAC1 measures listed above recorded progress. On the other hand, despite increased inflows of foreign aid, the external position remained precarious, justifying the continuation of substantial QDA.

2.9 The Bank's country assistance strategy in early 1994 was not significantly different from that of 1991. The 1993 CSP, which was still operative in 1994, stated up front that "the basic objectives of IDA's assistance strategy for Uganda have not changed since the strategy was last reviewed by management." More attention (some say this was mainly lip service) was given to poverty. One of SAC2's themes was in fact "poverty reduction through accelerated economic growth and rapid human resource development," but in fact the so-called poverty orientation of SAC2 was quite incidental, as it had been in SAC1.

## SAC2 Objectives and Conditions

2.10 In keeping with the essentially unchanged objectives of the Bank's country strategy, SAC2 had essentially the same objectives as SAC1, namely to advance reforms on the six fronts of the incentive and regulatory system, the Investment Code and Authority, the Custodian Board, revenue mobilization, protection of high-priority government expenditures, and civil service reform. The only significant shift in SAC2's focus was on the first of these fronts, where the emphasis moved to getting further liberalization in the coffee and cotton sectors, including through restructuring the ginning industry.

**Table 2.1: Selected Reforms Under ERCs 1 and 2 and SACs 1 and 2**

| *AREA OF REFORM* | *ERC 1* | *ERC 2* | *SAC 1* | *SAC 2* |
|---|---|---|---|---|
| *Trade Policy/ Incentive System* | Revision (increase) of producer prices for export crops in stages. Adoption of OGL-initially for 25 firms, subsequently expanded | Adoption of comprehensive plan for liberalizing coffee export marketing. Replacement of export licenses with renewable certificates; export monitoring | Unification of exchange rate; elimination of OGL and Special Import Program as means to allocate forex; replace import licensing w. import certificates; | Liberalization of coffee exports; new legislation on cotton and restructuring of ginning industry; liberalization of petroleum prices |
| *Custodian Board* | Verification of ownership of expropriated properties; slow progress hampered by poor records of Custodian Board | | Overhaul Board to speed up disposition of expropriated properties | Complete repossession of expropriated properties; sale of non-citizen properties w. pending claims |
| *Investment Promotion* | | | Establishment of Uganda Investment Authority (UIA) | Review Investment Code & operations of UIA |
| *Domestic Revenue Mobilization* | Initiate tax and tariff study by end-1987; finalize by end 1988. | Reform tax and tariff structure in FY91 budget | Establish Uganda Revenue Authority to improve tax administration; reduce exemptions and income tax threshold | Develop taxpayer identification number system; curtail tax exemptions |
| *Public Expenditure Prioritization* | Prepare/adopt a 3-Year Public Investment Program. Finalize action program for restructuring PEs. | Agree with IDA on O & M expenditure and on composition of FY91 development budget | Release all allocations for high-priority recurrent and development expenditures | Protect budgetary allocations for high priority recurrent and development expenditures |
| *Civil Service Reform* | | Expand Establishment Register, payroll number scheme, computerize staff lists. Begin rationalization of selected ministries | Design plan for civil service reform; initiate ministerial reviews, design retrenchment policy | Reduce number of civil servants by about 190,000; update teachers payroll; monetize housing & other benefits; ministerial restructuring |

2.11 Table 2.1, which presents a selection of main conditions of SACs 1 and 2, indicates that SAC2's conditions tended to focus to a greater extent than SAC1's on specific mechanics (e.g. the taxpayer identification number [TIN] system, the monetization of some civil service benefits) rather than putting in place plans and processes for reform. Annex B provides a fuller picture of the objectives and conditions of SAC1.

**Complementary Adjustment and Technical Assistance Operations**

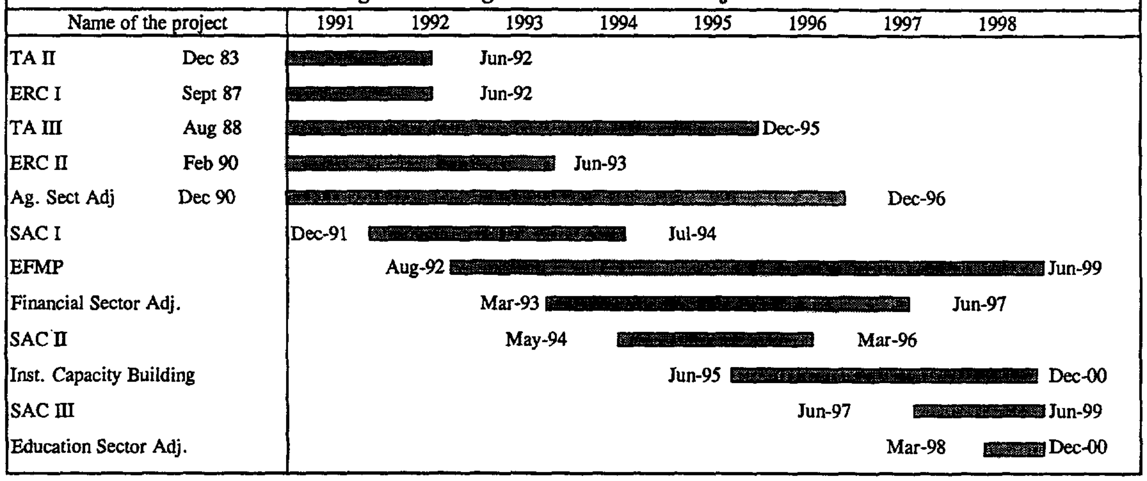
2.12 The Bank supported Uganda's ERP with several adjustment and technical assistance operations that were implemented both prior to and simultaneously with the two SACs. ERCs 1 and 2 laid the foundations for SAC1. These two economic recovery operations were in fact relatively low-conditionality SACs by another name, and since each included components in four out of the same six focal areas as SACs 1 and 2, there was a large degree of continuity between the ERCs and SACs (see Table 1 for the main conditions of ERCs 1 and 2 in SAC focal areas).

2.13 During the period December 1991-March 1996, which elapsed between the approval of SAC1 and the closing of SAC2, two other adjustment operations overlapped with both SACs, namely the **Agricultural Sector Adjustment Credit** (ASAC) and the **Financial Sector Adjustment Credit** (FSAC). Given that the 1991 CSP had (correctly) identified agricultural diversification as critical to sustaining growth and had also identified weaknesses in the banking sector as important constraints, some Bank instrument clearly needed to be geared to these issues (see annex C for brief summaries of the objectives and conditions of the ASAC and FSAC). Therefore the policy content of both these adjustment operations had critical overlaps with the two SACs: The ASAC, for example, supported the liberalization of coffee marketing, and the FSAC supported restructuring and reform of the banking system.

2.14 Figure 2.1 shows a timeline for all the adjustment and TA operations that overlapped with or followed upon SACs 1 and 2. Four TA self-standing operations overlapped with SACs 1 and 2, i.e. TA 2 and 3, the Economic and Financial Management Project (EFMP), and the Institutional Capacity Building Project (ICBP). All four TA projects aimed at facilitating the short-term design and implementation of economic reform measures, including most importantly those of the SACs, as well as fostering longer-term institutional development and capacity building for improving economic management in Uganda. Thus, the success or failure of the SACs was in no small measure a function of the success or failure of the TA operations geared to develop both the government's capacities to implement current reforms and to design next steps in the reform process.

2.15 IMF programs (ESAFs) were also in effect throughout the SAC1 and 2 period. Especially since SAC1 was undertaken in a context of high inflation and macro-instability, the success or failure of the SACs was highly dependent upon the government's willingness and ability to pursue the stabilization and structural measures of the IMF programs.

**Figure 2.1: Uganda: Timeline for Adjustment**




# 3. Implementation And Outcome

### Trade and Foreign Exchange Policy

3.1 One of the more important reforms associated with SAC1, the adoption in January 1992 of a Dutch auction for allocating donor import-support funds, was not a formal project condition per se but came about as a modality of credit disbursement. The slow initial implementation of this reform had major repercussions as it led, in early 1992, to slowed disbursements of QDA from several donors, which in the absence of expenditure cuts, caused a surge of inflation.

3.2 This surge alarmed the political leadership and led in turn to the replacement of the Minister of Finance and a coming to the fore of a core team of technocrats, led by the Permanent Secretary of the combined Ministry of Finance and Economic Planning (MFEP), with a common coherent view of what needed to be done and commanding, with the full support of the President, the instruments of concentrated executive authority. The continuity and long tenure of this core team and of the President, who gave them both leadership and support, were important factors explaining the impressive extent to which a broad range of reforms was implemented from March 1992 on.

3.3 Deregulation of the foreign exchange and trade regimes went well beyond the conditions of both SACs. In January 1992, GOU replaced the OGL and SIP with a weekly foreign exchange market auction to sell donor import support funds to commercial banks. The auction was abolished in November 1993 and replaced with a unified foreign exchange system in which commercial banks and foreign exchange bureaus participated. In April 1994, GOU agreed to conform to the IMF's Article VIII committing to place no restrictions on current international transactions. The Uganda shilling thus became convertible for all current account and many capital account transactions.

3.4 Most reforms for coffee market liberalization had been conditions of ERC2 and ASAC and had taken place before SAC2. But the implementation of the SAC2 condition to abolish the floor price was a useful final step in the process. The revitalization of coffee production and exports that followed was certainly one of the most important positive outcomes of the Ugandan adjustment program and for reducing poverty in Uganda.[1]

3.5 As in the case of coffee, most cotton sector reforms had been undertaken under another project.[2] The SAC2 condition, to privatize (from the cooperatives) 100,000 bales of ginning capacity, was implemented in 1995, and subsequent transfers brought the total to 210,000 bales capacity in 1996. But overall recovery of the cotton sector has been disappointing, particularly in the northern region, which is more dependent on cotton and which has suffered continuing strife and failed to grow and reduce poverty as have other parts of the country.

**Custodian Board**

3.6 The bulk of the actions to ensure prompt return, or fair compensation for, expropriated properties took place under SAC1—among others, advertisements both abroad and in-country about the cut-off date for repossession, classification of properties into citizen and non-citizen categories, the strengthening of the Custodian Board, the assignment of responsibility to a Minister of State for Finance, the appointment of a small high-level executive committee, and improved records management (under TA financed by USAID and IDA). Implementation was administratively and politically difficult, as many senior military and government officials had strong vested interests in opposing this reform. But the SAC conditionalities and leverage, external donor pressure, and TA all supported the intensified GOU commitment to move ahead on this front far more vigorously than had been done prior to SAC1. By second tranche (SAC1), all properties covered by the 1982 Expropriations Act had been returned, and by 1994, more than 90 percent of all claims had been validated and property returned. By the closure of SAC2, the reform had been effectively completed

3.7 These achievements had a very important impact on investment and trade. Well before SAC2 closed, benefits were being realized by way of increased participation by returned Asians in trade and investment. This in turn had positive spread and demonstration effects, including in the important coffee sector.[3] A more important general effect of this reform was the demonstration to Ugandan and foreign investors and businessmen alike that Uganda was again a country in which the rule of law would be applied. This perception was absolutely critical in repairing the investment climate. The key indicator of this climate, the Institutional Investor Index, rose substantially during the 1990s:[4] Though its low level raises questions about the sustainability of benefits, the trend has certainly been encouraging.

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[1] Income from coffee represents a higher proportion of agricultural revenue for the poorest quartile than for other households in Uganda's main coffee-growing areas.

[2] The Cotton Sector Development Project, Credit 2609-UG, pursued a similar agenda to that pursued under ERC II and ASAC for coffee, e.g., dissolution of the Lint Board, liberalization of marketing, etc.

[3] An additional impetus to private investment was given by the coffee boom of 1994-95, that began in 1993 (see para. 3.26).

[4] Institutional Investor Ratings (as of March of each year).

**Table 3.1: Institutional Investor Index**

| | | | |
|---|---|---|---|
| 1989 | 5.4 | 1994 | 10.1 |
| 1990 | 5.4 | 1995 | 12.8 |
| 1991 | 5.7 | 1996 | 14.5 |
| 1992 | 5.8 | 1997 | 17.7 |
| 1993 | 7.3 | 1998 | 21.2 |

### Investment Code and Authority

3.8 Like the Custodian Board reform, GOU's adoption of a new Investment Code and the abrogation of industrial licensing under SAC1 did away with important entry barriers, helped remove discrimination against foreign investors, and improved Uganda's investment climate. However, a shortcoming of the new Code was that it adopted some distortionary exemptions and tax holidays as well as some onerous procedures that the review, commissioned under SAC2, did not quite put right.

3.9 The Uganda Investment Authority (UIA), established under a SAC1 condition to administer the Code, did have some success in promoting investment, including through image-building abroad of the "new Uganda" and by assisting potential investors within Uganda. But UIA did not become the intended "one-stop shop." Important problems of immigration, work permits, and of access to land and utilities were left to other agencies where combinations of red tape and corruption sometimes had adverse effects on the pace of private sector development.[5] While investor surveys do not point to any serious problems of corruption or mismanagement within UIA itself, questions have been raised by Bank staff and others regarding UIA size, cost-effectiveness, and the seeming overlap of functions with the Export Promotion Board.

### Domestic Revenue Mobilization

3.10 Conditions under both SACs dealt almost entirely with raising tax revenues through better tax administration (for example, the introduction of TINs) rather than tax policy reform (though tax exemptions were largely eliminated). In particular, the Bank and British ODA provided advice and TA in creating and making operational, under SAC1, the Uganda Revenue Authority (URA) as an autonomous agency outside of the civil service, with its own (much higher) pay scale.[6] Modeled after Ghana's revenue authority, the URA got underway reasonably rapidly and was initially hailed as a success for its major role in helping raise government revenues from about 7 percent of GDP to about 9 percent in FY96 and 11 percent in FY96.[7] Admittedly, this was also a period of high growth in key tax bases, rapid monetization of the economy, and substantial increases in some tax rates. Nevertheless, since the revenue increases took place while coffee and other export taxes were being abolished and tariff and income tax rates were being reduced, it is clear that much of the increase was due to strengthened collections by the URA.

[5] One example of such corruption (discussed in para.5.15), was the reported propensity of some district councils to sell land to themselves and to cronies, rather than to investors.

[6] IMF staff also point out that an IMF mission of April 1991 recommended the setting up of an independent authority along the lines of the URA. See Sharer et al (1995), *Uganda: Adjustment with Growth*, 1987-94, IMF Occasional Paper #121, Washington, D.C., p. 25.

[7] The average ratio of tax revenues to GDP was 7 percent in the three years prior to the establishment of the URA.

3.11 Although ongoing ESAFs and PFPs called for revenues to increase by about one percent of GDP annually, the revenue ratio has remained at about 11 percent since FY96. This is a matter of concern to the Ministry of Finance and most donors, considering how low this ratio is relative to other African countries, expenditures, and even Uganda's tax performance in 1970. Whereas in the mid-1990s, the URA was sometimes accused of being too aggressive, by mid-1998, it was being widely accused of mismanagement, nepotism, and corruption. There was substantial evidence of widespread smuggling of petroleum products; other forms of tax evasion; continued granting of special exemptions; and an uneven, discriminatory collection of customs and other taxes from private sector businesses and individuals.[8]

3.12 Questions concerning (i) whether the revenue generation targets were themselves appropriate or not, and (ii) whether the SACs should have addressed some tax policy issues are addressed in para. 4.4.

## Protecting Public Expenditure Priorities

3.13 Public expenditure conditions in both SACs sought to redress expenditure misallocations by protecting O & M and other key areas of expenditure, the Priority Program Areas (PPAs) within the budget, and agreed "core" projects within the development budget. In combination with IMF credit ceilings that capped total expenditures, the SAC conditions were effective in raising social and infrastructure expenditures while containing somewhat the high level of military expenditure.[9] The development budget was also pruned to concentrate limited management and other implementation capacities as well as financial resources on high priority projects.

3.14 The Bank made two other important contributions to public expenditure management. The first was to reorganize and strengthen macroeconomic capacity within MFEP and establish effective machinery of coordination between MFEP and the Bank of Uganda; the second was to help put in place, through economic and sector work and TA, notable institutional improvements in forward budgeting and expenditure programming and monitoring. The changes were made in the context of cash budgeting adopted in 1992.

3.15 In identifying core projects within the development budget, the SACs opted to reclassify existing projects instead of radically reviewing the objectives of the development budget. Such a review would have involved more profound budget reform and better integration of development and recurrent budgets in expenditure planning. Nor did the SACs give attention to the incidence and efficacy of the protected and increased expenditures.[10] While the Bank has hailed (and continues to hail) as a success the increased expenditures (and shares of expenditure) on education and health, recent evidence has come to light on the large leakage (and hence the low efficacy) of

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[8] The IMF estimates that some 10-20 percent of petroleum products were smuggled last year.

[9] Priority areas initially comprised primary health, primary education, road maintenance, water and agricultural extension. The judiciary and police were subsequently added to this list.

[10] As one Bank staff member described it, "We had no idea what happened to funds upon their leaving the budget. We had too much focus on the input end. People in the protected sectors asked for (and got) more and more resources without being held accountable for what the resources were buying."

these expenditures.[11] These revelations point to a service delivery crisis of major proportions. They also raise fundamental questions about the efficacy of civil service reform (CSR) to date and about the wisdom of raising rather than lowering public expenditures until there is some assurance that the efficacy of public expenditure is far greater than it appears to be at present.[12]

### Civil Service Reform

3.16 In 1990 a government commission found that Uganda's civil service, once hailed as the best in Africa, had become inefficient, demoralized and unresponsive. The commission concluded that key problems in Uganda's civil service were its bloated structure, inadequate pay and benefits, dysfunctional organization, abuse of office and property, moonlighting and corruption, lack of discipline, and inadequate personnel management and training.

3.17 Considerable progress was achieved, under SAC1, on downsizing, ministerial reorganization and improving civil service pay. Between July 1991 and end-1993, the size of the civil service was cut from 270,000 to 170,000. The number of ministries was reduced from 28 to 21 in 1992, and real wages of remaining civil servants was more than doubled between FY91 and FY94. Progress was also made on SAC2 conditions for the monetization of housing and other benefits.

3.18 SAC1 called for the Ministry of Public Service (MPS) to prepare an ambitious and comprehensive program of civil service reform (CSR), with TA from the Bank and ODA. This program entailed a time-specific program of measures on many fronts including redefining the role of government, rationalizing ministries, strengthening MPS's capabilities to manage the reform, monetizing benefits, grading jobs, and defining a code of conduct and standards of discipline.[13] In the light of progress achieved by 1994 and planned for the coming years, Uganda's CSR, like its URA, was hailed as a success and a model for other countries.

3.19 Since then, however, CSR progress has slowed considerably. To a large extent, this slowing is attributable to the passing in 1993 of the local government statute giving impetus to decentralization and, in turn, to the need to revisit ministerial structures and other implications of the new division of roles and responsibilities between the central and local governments. But progress has lagged on other fronts, including pay reform, capacity building, and the introduction of results-oriented management. And fundamental questions are rightly being raised, especially in light of the seriousness of the crisis in public service delivery, about the thrust as well as the pace of future reform.

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[11] A 1996 study of 250 government-aided primary schools found that only a third of government grants to cover non-wage costs were actually received by the schools and that only a third of tuition fees paid by parents were retained by schools. A health sector survey similarly revealed huge diversions (up to 94 percent) of funds for publicly-supplied drugs.

[12] A private sector businessman expressed the view that "if we shut down half the government, it would improve the living standards of the people." This view seems to be widely shared in the private sector, and even in some quarters of the donor community. How to test this hypothesis?

[13] See "Civil Service Reform: Management of Change: Context, Vision, Objectives, Strategy and Plan," Ministry of Public Service, Jan. 1994

3.20 Among the more trenchant criticisms of the CSR are that it was too fixated on matters of organizational structures and personnel management and gave too little attention to the fundamentals of incentives, affordability, competence, performance and accountability for service delivery. While decentralization and the new Constitution have "re-invented" government in Uganda, the CSR has so far failed to "re-engineer" government to match roles and capabilities to ensure that key services (that only government can deliver) are delivered more effectively. In part because the agendas of decentralization, civil service reform, expenditure reform and capacity building have been poorly integrated, TA and institutional development in all of these areas has been less effective than it could and should have been.[14]

## Projected and Actual Outcomes

3.21 To evaluate how satisfactory Uganda's economic recovery and structural adjustment have been under SACs 1 and 2, it is necessary to grasp the great extent to which the economy had declined and institutions deteriorated during the 1970s and 1980s. For while most economic and social indicators showed substantial improvement between 1991 (when SAC1 was appraised and approved) and end-1995 (when SAC2 was closed), and even more improvement between 1986 (when the Museveni regime came to power) and the present time, some key indicators (e.g., per capita income and non-coffee exports) have still not recovered to their 1970 levels (see Annex D).

3.22 Clearly, both the restoration of relative peace and security since 1986 (in most of the country) and the implementation of policy reforms, especially since SAC1 in 1991, have contributed greatly to the recovery of the economy. This PAR does not attempt an "attribution analysis," i.e. an analysis of how much growth was attributable to peace, policy reform (of which the SAC-associated reforms were only a part), or external factors (such as the coffee boom in 1994-95 and the large aid flows received in the 1990s). But the 1997 Collier and Pradhan analysis of the "peace effect" vis-a-vis other factors concludes that, notwithstanding the 7 percent annual GDP growth achieved during the period 1986-1994, this was a period of "atypically slow reconstruction" for an economy that had suffered such a long period of disturbance.[15]

3.23 So whereas by one standard (say, a comparison of Uganda's growth with that of other developing countries) Uganda's seemingly rapid GDP growth over the past decade would be considered highly satisfactory, by another standard (the calculation of its "warranted" growth rate from a very depressed base), this GDP growth appears to be only marginally satisfactory. This anomaly points to the importance of establishing appropriate performance benchmarks for adjustment in an economy as maladjusted as Uganda's had become by 1986.

3.24 The set of benchmarks applied below—simply the projections and targets for key variables presented in the two SAC President's Reports—are considered to be "normative," insofar as they were the PFP targets for the period. Table 3.2, which provides a comparison of actual and projected outcomes, indicates that most of the important actual outcomes were more favorable than those projected (see also Annex E).

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[14] As one Bank staff member put it, "capacity building has been a black box."

[15] See Collier, P. and S. Pradhan (1997), "The Ugandan Transition from War to Peace" in B.Hansen and M.Twaddle (eds), *Developing Uganda*, London: J.Curry.

*Table 3.2: Key Indicators for Program Implementation and Operation*

| *Indicator Type* | *Variable Name* | *Unit/ Project or Actual* | | *FY91* | *FY92* | *FY93* | *FY94* | *FY95* | *FY96* | *FY97* |
|---|---|---|---|---|---|---|---|---|---|---|
| | * Debt Service/ Exports of G & S including private transfers | % | P1 | 66.6 | 64.5 | 53.5 | 48.3 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 52.1 | 25.5 | 22.4 | 23.2 |
| | | | A | 94.4 | 125.5 | 72.5 | 52.1 | 25.2 | 22.4 | 19.5 |
| | * Government Revenues / GDP | % GDP | P1 | 8.1 | 9.4 | 10.7 | 12.5 | .. | .. | .. |
| | | | P2 | .. | ... | .. | 7.9 | 8.8 | 10.0 | 10.9 |
| *POLICY [1] INDICATORS* | | | A | 7.5 | 6.8 | 7.3 | 8.3 | 9.8 | 11.0 | 11.8 |
| | * Govemement Expenditures / GDP | % GDP | P1 | 16.6 | 22.7 | 21.2 | 22.0 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 17.7 | 16.0 | 16.0 | 16.0 |
| | | | A | 14.7 | 21.2 | 18.6 | 18.5 | 17.3 | 18.8 | 17.7 |
| | * Overall Deficit / GDP (excluding grants) | % GDP | P1 | -8.5 | -13.4 | -10.5 | -9.5 | .. | .. | .. |
| | | | P2 | .. | .. | .. | -9.8 | -7.1 | -6.0 | -5.0 |
| | | | A | -7.3 | -14.5 | -11.2 | -10.2 | -7.5 | -7.8 | -6.0 |
| | * Gross Investment / GDP[7] | % GDP | P1 | 11.7 | 12.1 | 13.2 | 13.7 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 16.0 | 16.2 | 16.8 | 17.2 |
| | | | A | 15.2 | 15.9 | 15.2 | 14.6 | 16.2 | 15.3 | 15.3 |
| | - Public Investment / GDP | % GDP | P1 | 5.9 | 5.6 | 5.6 | 5.7 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 6.9 | 5.5 | 5.4 | 5.4 |
| | | | A[2] | 7.4[3] | 7.4 | 6.7 | 5.4 | 5.4 | 5.8 | 5.3 |
| | - Private Investment / GDP (includes change in Stocks) | % GDP | P1 | 5.8 | 6.5 | 7.6 | 8.0 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 9.0 | 10.7 | 11.3 | 11.9 |
| | | | A[2] | 7.8[3] | 8.5 | 8.5 | 9.2 | 10.8 | 9.5 | 10.2 |
| | * Gross National Savings / GDP (includes transfers) | % GDP | P1 | 7.0 | 7.5 | 9.2 | 10.2 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 7.8 | 10.1 | 10.5 | 11.3 |
| | | | A | 1.4 | 2.1 | 3.6 | 10.3 | 11.9 | 11.5 | 12.5 |
| | - Public Savings / GDP | % GDP | P1 | -0.5 | -2.5 | -0.5 | 0.5 | .. | .. | .. |
| | | | P2 | .. | .. | .. | -0.6 | 0.2 | 1.3 | 2.1 |
| | | | A[2] | 0.0 | -5.0 | -1.1 | -0.6 | 0.6 | 1.2 | 1.0 |
| | - Private Savings / GDP | % GDP | P1 | 5.8 | 6.5 | 7.6 | 8.0 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 8.4 | 9.9 | 9.3 | 9.2 |
| *INTERMEDIATE INDICATORS* | | | A[2] | 1.4 | 7.1 | 4.7 | 10.9 | 11.2 | 10.3 | 11.6 |
| | CPI (FY91=100)[4] | Index | P1 | 100.0 | 117.9 | 135.7 | 149.2 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 205.1 | 224.5 | 235.8 | 247.6 |
| | CPI Calendar Year 1991=100 | | A[5] | 100.0 | 152.3 | 161.7 | 177.4 | 192.6 | 206.3 | n.a. |
| | Real Effective Exchange Rate (FY91=100) | Index | P1 | 100.0 | 87.0 | 87.0 | 87.0 | .. | .. | .. |
| | Data for P2 not available in the PFP for period FY94-97 | | P2 | 100.0 | 81.2 | 80.3 | .. | .. | .. | .. |
| | RRE Calendare Year 1991-100 | | A[5] | 100.0 | 91.8 | 97.2 | 121.0 | 118.0 | 118.0 | n.a. |
| | Exports Growth Rate (nominal) | % | P1 | -15.7 | 12.4 | 23.1 | 19.2 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 50.2 | 0.6 | 7.2 | 7.3 |
| | | | A | 4.0 | -20.7 | 37.7 | 128.4 | 20.5 | 27.1 | -13.7 |
| | Imports Growth Rate (nominal) | % | P1 | -5.8 | 7.3 | 11.0 | 9.0 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 19.9 | 6.4 | 3.3 | 4.2 |
| | | | A | -5.3 | 0.4 | -23.3 | 77.9 | 35.7 | 38.2 | -4.2 |
| | Current A/C Balance including grants[6] | US$ million | P1[4] | -444.0 | -471.0 | -470.0 | -483.0 | .. | .. | .. |
| | | | P2 | .. | .. | .. | -86.7 | -116.4 | -138.2 | -160.6 |
| | | | A | -187.0 | -132.0 | -112.0 | -36.3 | -155.1 | -122.3 | -59.2 |
| | Current A/C Balance / GDP including grants | % GDP | P1 | -4.7 | -4.5 | -3.9 | -3.5 | .. | .. | .. |
| | | | P2 | .. | .. | .. | -2.1 | -2.1 | -2.4 | -2.6 |
| | | | A | -5.6 | -4.6 | -3.5 | -0.9 | -2.7 | -2.0 | -0.9 |
| | GDP Growth Rate (Factor Costs) | % | P1 | 4.2 | 5.0 | 5.0 | 5.0 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 4.5 | 5.5 | 5.5 | 5.5 |
| *OUTCOME INDICATORS* | | | A | 5.2 | 3.1 | 8.4 | 5.3 | 10.5 | 8.1 | 5.2 |
| | GDY Per Capita Growth Rate | % | P1 | 1.9 | 3.4 | 4.1 | 3.5 | .. | .. | .. |
| | | | P2 | .. | .. | .. | 4.1 | 4.5 | 2.5 | 3.3 |
| | | | A | 2.6 | 0.5 | 4.4 | 3.1 | 8.1 | 6.2 | 2.5 |

Note: 1 Unless otherwise specified general sources for this table are: P1 (Policy Framework Paper 1991/92-1993/94, SECM91-1387, Oct. 18, 1991), P2 (Policy Framework Paper 1994/95-1996/97, SEcM94-826, Aug. 3, 1994), A (Country Department Economic Database - Table1: Key Economic Indicators - HIPCs/PFP Case, and Republic of Uganda, Statistical Abstract, July 1998. MFPED).
2 Table 4: Uganda: Gross Domestic Product by Expenditure Shares at Current Prices, 1991/92-1996/97. Uganda-Selected Issues and Statistical Appendix. march 25, 1998. SM/98/76, IMF.
3 Source for this number is Table 4: Uganda: Gross Domestic Product by Expenditure as a Percentage GDP at Market Prices, 1989/90-1993/94. Background paper on the Response of Output and Investment to Adjustment Programs, and Statistical Appendix. SM/95/72, IMF.
4 Original Base Year for P1, FY88: Pd, CY91.
5 Source: World Development Indicators 1998. Variable in Calendar Years.
6 Beginning in FY96, Private Transfers were adjusted to estimate the FDI separately.
7 Data for Gross Domestic Investment (Public & Private) and Gross National Savings (Public & Private) is expressed in constant prices to isolate the impact of rapid exchange rate adjustment.

3.25 With regard to "policy indicators," government revenues rose as projected in SAC2's PR (from about 7 to about 10 percent of GDP) between FY91 and FY96 while expenditures as a percent of GDP rose and then fell. The SAC1 program quickly came "off track" in early 1992 and the fiscal deficit (excluding grants) surged from 7 percent of GDP in FY91 to nearly 15 percent in FY 92. Since FY92, however, the fiscal deficit has been reduced in every single year, falling to 6 percent by FY97. Moreover, since aid flows into Uganda proved to be higher than had been expected in the PRs, the fall in the deficit *inclusive* of grants was greater than expected notwithstanding that expenditures remained high. Thus, by FY96 the overall deficit inclusive of grants was only 2 percent of GDP, and domestic bank financing in recent years has been negative.

3.26 The exchange rate stabilized in the range of Ush 1000 to the US$, as the government's policy to sterilize much of the aid inflow and build up international reserves (from less than one month's imports in FY91 to about four months' in FY96) served to avoid the Dutch disease that otherwise might have ensued. Uganda's macroeconomic management also brought down inflation from an annual rate averaging over 35 percent in FY92-93 to less than 7 percent in the period FY94-97, a rare and remarkable achievement, especially considering that the coffee boom of 1994-95 and subsequent deterioration in the terms of trade made demand management more complex.

3.27 Some observers believe that GOU's revenue effort and emphasis on deficit reduction were too great, especially since aid proved to be more plentiful than expected. The revenue trend has now been reversed and the IMF is agreeable to some increase in next year's budget deficit. But whatever position one takes on the optimal trajectory of deficit and inflation reduction, GOU certainly deserves considerable credit for its macroeconomic management during the SAC1-2 period. And insofar as GOU's macroeconomic management took place within the broad parameters of the PFP and IMF and Bank adjustment operations, the Bank and Fund can also take some credit for "getting it right" on the macroeconomic side.

3.28 Uganda's investment performance has been variable. Whereas under SAC1 both public and private investment were greater than projected, the opposite was true during SAC2, when gross investment remained at about 15 percent of GDP. Thus Uganda's respectable GDP growth rate was achieved despite a relatively low investment rate. This low rate raises questions about the sustainability of growth (see para. 5.12).

3.29 Neither SAC had explicit poverty-alleviation objectives. However, since poverty alleviation is the ultimate objective of adjustment, trends in poverty incidence are the most important performance/outcome indicator. The good news is that between 1992 and 1996, the poverty headcount fell from 56 percent to 46 percent, an exceptionally favorable development by international standards. Poverty fell in all four regions of the country, dropping the most (from 45 percent to 28 percent) in the Central Region. Coffee liberalization turned out to have been a most effective poverty program, as poverty among households engaged in cash cropping fell by 32 percent, as compared with 18 percent for Uganda as a whole. The bad news is that poverty fell only marginally in the north and remains very high at 65 percent, the poorest 20 percent of Ugandans became poorer in the mid-1990s, and income distribution widened somewhat during the SAC1-2 period.

# 4. Audit Ratings

### Evaluation of Design

4.1 **Relevance of Strategic Objectives and Priorities.** Both SACs' objectives were consistent with the Bank's country strategies expressed in the 1991 and 1993 CSPs. Indeed, as the "flagship" operations of the lending program, the SACs were themselves the Bank's main instruments for achieving critical policy reforms affecting PSD and PSM. SAC components on revenue mobilization, budgetary priorities, and reductions in the size of the civil service all served to achieve macroeconomic stability. Components involving the return of expropriated properties and other civil service reforms served to put in place and implement the rule of law. The components geared to liberalizing trade, foreign exchange and coffee markets, removing licensing, and encouraging foreign investment, sought to open up the economy.

4.2 Given the constraints facing Uganda in the early 1990s, with a moribund private sector and the non-functional civil service, it is hard to think of general objectives or specific modalities that warranted higher priority in SAC1. The critical agricultural sector issues—above all liberalization of coffee marketing—were being addressed in the ongoing ERC2 and ASAC projects and stabilization issues were being addressed in ongoing IMF ESAFs. Although several components were follow-ups to ERC1, it was rightly recognized that pressure on those fronts needed to be continued and intensified. SAC1 therefore deserves good marks for its "strategic thrust."

4.3 SAC2 was undoubtedly useful in pushing to completion the work of the Custodian Board, liberalizing coffee exports, and moving ahead with civil service reform. However, it did not have the same strong strategic thrust, and its design was too much in the nature of a "tactical Christmas tree." There was also not as much deepening of reform under SAC2 as would have been desirable.

4.4 In taxation, opportunities were missed to move ahead with tax policy reform (shifting focus from the level to the structure of taxation), instead of leaving this almost entirely to the IMF, and to focus on staffing, management, and corruption issues in the URA.[16] On civil service reform, it would have been timely to concentrate less on the tactics of benefit monetization and more on some of the generic and strategic issues identified in paras. 3.16 to 3.20. On public expenditure management, a focus on the management and quality of service delivery would have been more timely. On investment promotion, the conditionality to "review" the Investment Code and UIA was too loosely formulated; reductions in exemptions, tax holidays, and the anti-export bias in the tax system would have been more appropriate. And given the slow progress on privatization and public enterprise reform, SAC2 might usefully have exercised some leverage to get reforms in these areas on track. A few selective conditionalities in these areas would surely have constituted more of a "critical mass" of reforms than the actual conditionalities. In brief, SAC2 would have been better designed, and hence more effective, had it taken up several of the issues that became the core conditions of SAC3.

[16] For example, reducing reliance on excessively high indirect taxes, moving judiciously to the VAT, and broadening the tax base.

4.5 **Ownership and Commitment.** President Museveni, personally took a leading and "hands on" role in defining the direction of economic policy. Although initially a socialist and dirigiste, the President progressively became convinced that "incentives matter most" and that Uganda should install a market-friendly economic regime. Although this view was not widely shared, after many years of war and economic mismanagement, there was a broad consensus that the old order had failed and that new policy directions should be pursued. And with the economy having been so devastated, there were relatively few prospective losers from, and hence opponents to, a program of stabilization and adjustment.

4.6 Nevertheless, ownership of the ERP during the period 1987-91 was extremely limited, and it was not until early 1992 that a core team of technocrats came to the fore with a common, coherent view of what needed to be done and with political support to "do the necessary." From then on, this core team enjoyed continuity and long tenure and the backing of the President. Support of the reform program gradually widened within both the private and public sectors, aided by a steady, if modest, improvement in economic conditions, especially in the urban areas. Relations with foreign aid donors also improved considerably after 1992, and large aid flows permitted larger benefits and lower social costs than would otherwise have been possible.

4.7 **Timeliness, Lending Levels, and Conditionalities.** During the early and mid-1990s, Uganda needed substantial balance-of-payments QDA owing to its very low export earnings, the need for increased imports of all kinds (wage goods as incentives to production, intermediate goods to get trucks rolling, capital goods to repair infrastructure, budgetary support so that civil servants might have a living wage), a high debt service burden, and a very low level of international reserves. In the face of all these urgent needs, SACs 1 and 2, along with the IMF ESAFs, provided an imprimatur to Uganda's aidworthiness and served to mobilize considerable cofinancing and parallel financing from other donors through the SPA and Consultative Group chaired by the Bank.

4.8 Unlike in some countries where fungible aid resources have found their way into capital flight, real estate speculation, and white elephant projects, this seems not to have happened on any significant scale in Uganda.[17] Given the fungibility of QDA, it is not possible to identify just where the SAC monies went. But if one considers a "counterfactual scenario" in which the SACs did not happen, it is possible that Uganda would not have accumulated reserves as it did, and that it would have defaulted on its debt service in order to maintain a minimal level of imports. This would have in turn occasioned a reduction in aid flows and import levels would have declined.

4.9 SACs 1 and 2 were timely, therefore, in providing much-needed foreign exchange to keep growth going while allowing a buildup in reserves, and also in providing leverage to the core team of reformers. Given the genuine commitment of these reformers to reform, the reforms would undoubtedly have taken place eventually without Bank conditions. But rather than undermining ownership, the SAC conditionalities were welcomed by the reformers and apparently accelerated the pace of reform.

[17] Findings of successive Public Expenditure Reviews carried out by the World Bank provide the main evidence relating to the finding that Uganda has by and large avoided white elephant projects. Unpublished data from the Department of Statistics on the composition of investment is reported in P. Collier, "A Commentary on the Ugandan Economy," September 1997 (unpublished).

4.10 **Efficacy and Cost-Effectiveness.** The efficacy of SACs 1 and 2—the extent to which project objectives and conditions were realized, taking into account their ambitiousness and importance—was discussed in paras. 3.21 to 3.29. The conclusion was that SAC1 was highly efficacious, with SAC2 somewhat less so.

4.11 Were project funds well-used and therefore cost-effective?[18] Given the fungibility of funds, this question cannot be answered directly but, as noted above, there is no particular evidence that any significant proportion of IDA funds was misused, and they clearly contributed to Uganda's recovery. Another dimension of cost-effectiveness is whether the Bank's administrative expenditures on the projects were well spent. According to the ICRs, SAC1 entailed an outlay of 223SW and $655,000 while SAC2's costs were 168SW and $556,000. MIS data, however, record staffyear costs for SAC1 of 2.8 and for SAC2 of 2.2. During the period FY 92-95, the average staffyear cost for all SACs completed in the Africa Region was 2.2. While SAC1 cost somewhat more than the average SAC, it surely had an impact far greater than the average African SAC and could be deemed, at least by this relative standard, to have had fully satisfactory cost-effectiveness. SAC2, with its lower cost but also a lesser impact, may also be considered to have been satisfactorily cost-effective.

### Assessment of Outcome

4.12 A large part of this report has so far been devoted to establishing that SAC1 had high relevance, a substantial degree of difficulty/ambitiousness, high efficacy, and fully satisfactory cost-effectiveness. Taking these factors together, its overall outcome rating is therefore "highly satisfactory." SAC2 was found to have had somewhat lower relevance and ambitiousness, high efficacy and satisfactory cost-effectiveness. Its outcome rating is "satisfactory." The ICRs rate the outcomes for both projects as "satisfactory" (see Annex F).

4.13 In considering whether this high rating is appropriate for SAC1, it is relevant to re-emphasize that as of end-1991, when SAC1 was approved, Uganda's government was still barely functional, and where it was "functional" (as in coffee marketing and in enforcing counterproductive controls), it was actually dysfunctional. Ownership of the reform agenda remained weak and narrow, inflation remained high, the investment climate was very poor, demobilization had just begun, the revenue collection apparatus and budgeting processes were very weak, and performance against the agendas of ERC1 and ERC2 was unsatisfactory. Against this background, Uganda economic management performance during the SAC1 period of 1992-93 was quite remarkable, both with respect to reforms that were outside the SAC1 agenda per se (stabilization, demobilization) as well as to the SAC1 reforms themselves. If one looks only to the selected reforms presented in Table 2.1, it may indeed be questioned, for example, how important was the establishment of the UIA or how significant the impact of SAC conditionality on public service delivery. But it must be emphasized that the components described in that Table are neither complete nor do they warrant equal weight in importance. Indeed, it could well be argued that the progress on the most critical fronts (Trade Policy/Incentive System and Custodian Board) was so substantial that these alone would warrant a "highly satisfactory" rating for SAC1.

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[18] Neither ICR addressed the cost-effectiveness issue.

**Institutional Development Impact**

4.14 The broad definition of ID is "changes in the rules of the game," inclusive of policy reform, organizational change and/or capacity building. By this definition, the SACs can certainly be said to have had substantial ID impact, as "rules of the game" were changed in foreign exchange allocation, coffee marketing, budgeting, foreign investment entry, and so forth. The SACs, particularly SAC1, also entailed considerable organizational change, with conditions calling for the creation of some agencies (URA, UIA) and a reduced or eliminated role for others (e.g. coffee and cotton marketing agencies).

4.15 The SACs did not themselves, however, entail capacity building components. These were left to the TA operations cited earlier. In Uganda where institutions were shattered, the need for TA was enormous; but since the capacity to absorb TA was limited, some agencies, such as the Ministry of Finance, used "substitution TA" to perform regular functions. Moreover, as policy reform itself made huge demands on limited capacity, it was all the more important for the priorities and sequencing of policy reform to be well integrated and synchronized with those of TA. Uganda's record on TA use has been mixed; the allocation of TA resources has been ad hoc because of the lack of clear-cut criteria for setting priorities and the disparate priorities pursued by policy reform strategies and TA action plans.

4.16 In light of these considerations, the PAR rates the ID impact of SAC1 as "substantial" and that of SAC2 as "modest." Both ICRs rated the ID impact as "partial" (see Annex F). The upgrading of the ID rating for SAC1 is seen to be warranted in particular by the especially crucial steps taken under SAC1, as well as through complementary adjustment and TA operations, to liberalize agriculture, to liberalize foreign exchange allocation, to restore property rights, and to prepare a plan for comprehensive civil service reform with a view to improve service delivery. Progress on these most crucial fronts, as was emphasized above, was truly remarkable during the SAC1 period. The government's failure to subsequently implement on schedule the impressive civil service reform program prepared during the SAC1 period should be seen (as will be discussed below) more as a sustainability issue than as a shortcoming of the SAC1 agenda per se.

**Bank and Borrower Performance**

4.17 **Bank Performance.** For SAC1, the ICR found Bank performance to have been "highly satisfactory" for identification and preparation assistance and "satisfactory" for appraisal and supervision. This PAR agrees with these ratings. The audit has already emphasized that Bank staff worked effectively with the Ugandan core team of reformers to ensure that SAC1 got the priorities right, had a strong strategic thrust, and took the right risks. Appraisal was fully satisfactory because this pre-appraisal process was so thorough, with lessons learned from the ERC projects. The project's quality at entry was therefore highly satisfactory. Supervision, which entailed a substantial amount of TA (e.g., advising GOU on how to solve implementation problems in organizing URA and processing Custodian Board claims), rather than just monitoring, was generally good. The PAR therefore rates overall Bank Performance in SAC1 as highly satisfactory (see Annex F).

4.18 For SAC2, the ICR found Bank performance to have been highly satisfactory in preparation assistance and supervision and satisfactory in identification and appraisal. This PAR finds that SAC2 had too many conditions that were lacking in strategic thrust and missed opportunities to deepen reform in such areas as taxation and CSR. This also meant that the supervision process was too focused on less consequential matters e.g., TIN implementation, than it might have been. For these reasons the PAR differs from the ICR in rating Bank performance as "satisfactory."

4.19 One shortcoming in both projects was the lack of a well defined set of monitorable performance indicators such as those identified for SAC3.

4.20 **Borrower Performance.** For SAC1, this PAR agrees with the ICR's ratings of GOU performance as satisfactory for covenant compliance and as highly satisfactory for implementation. But whereas the ICR rates Borrower performance in project preparation as satisfactory, this audit upgrades the rating to highly satisfactory. GOU ownership of the SAC1 agenda, though narrow, was strong and project preparation was fully collaborative. Moreover, owing to the training and experience gained under the ERCs, Bank procedures for special account operation, procurement, and disbursement were better understood and implemented. All legal covenants and conditions for tranche release were met (with the exception of less than full compliance with public expenditure conditions for which a waiver was granted). Overall implementation was nonetheless highly satisfactory owing to GOU's determined and successful pursuit of stabilization and adjustment following the Cabinet changes in 1992. The PAR therefore rates overall Borrower Performance during SAC1 as highly satisfactory.

4.21 For SAC2, the ICR found Borrower performance to have been satisfactory in preparation and highly satisfactory in covenant compliance and implementation. However, though there was full compliance with SAC2 covenants, these covenants were themselves neither as relevant nor as demanding as they might have been; this PAR therefore rates Borrower performance in preparation and covenant compliance as only satisfactory. Uganda's implementation of the overall adjustment program was satisfactory on some fronts (stabilization and regulatory and incentive reform) but less so in others (tax and CSR). The PAR rating for implementation is therefore satisfactory.

4.22 Pulling these ratings together,

a) for SAC1, this PAR's ratings agree entirely with those of the ICR in finding Bank performance to have been highly satisfactory for identification and preparation assistance and satisfactory for appraisal and supervision, while Borrower performance was found satisfactory for preparation and covenant compliance and highly satisfactory for project preparation and implementation. The PAR therefore concludes that both Bank and Borrower Performance in SAC1 were highly satisfactory.
b) for SAC2, this PAR's ratings differ from the of the ICR in finding Bank and Borrower performance to have been satisfactory for all categories of performance, whereas the ICR found Bank performance to be highly satisfactory in preparation assistance and supervision and Borrower performance to be highly satisfactory in implementation and covenant compliance. For SAC2, the PAR gives an overall rating of satisfactory to Bank and Borrower Performance.

# 5. Sustainability

5.1 The ICRs for SACs 1 and 2 found the achievements of both projects likely to be sustainable. The ICR on SAC1 focused entirely on factors likely to affect progress on each of SAC1's six policy fronts (trade reform, investment promotion, Custodian Board, etc.) but did not directly address the matter of sustainability per se. The ICR on SAC2 touched briefly[19] upon sustainability issues such as the government's commitment to fiscal discipline (which it considered to be adequate), the likelihood that reforms already taken would be reversed (which it considered to be low), and the need for more and better power and other infrastructure (which it considered essential to sustain future PSD).

5.2 Neither ICR, however, gave attention to several important dimensions of sustainability: the unfinished agenda of adjustment; the breadth and depth of "ownership" of the reform agenda, both within the government and in civil society; political factors, including the implications of increased decentralization and democratization; uncertain sources of future growth, with particular reference to constraints to PSD; the worrisome matter of corruption; limits to Uganda's aid absorptive capacity and issues of aid dependence; and distributional issues.[20]

5.3 A main conclusion of this assessment is that if one defines sustainability narrowly in terms of the likelihood that the specific reforms undertaken under SACs 1 and 2 will be sustained or reversed, then the sustainability rating for both projects should clearly be "likely." When one puts the question, however, in terms of whether the economic growth and poverty reduction rates of the early-to-mid 1990s are likely to be sustained or not, then the rating becomes "uncertain."

5.4 **Breadth and Depth of Ownership of the Reform Agenda.** An important design weakness of both SACs was the small base of ownership of Uganda's reform program (see para. 4.6), which, in the early 1990s, was confined largely to the President and his small team of reformist technocrats. By all reports, good progress has been made since SAC1 to make other parts of government, formerly resistant or passive, into stakeholders. However, many members of Parliament and civil society are still not market-friendly. Difficulties in obtaining Parliamentary approval of such measures as the VAT and the 1998 land bill illustrate also that broadened participation in economic policy may sometimes slow down the pace of reform.[21] Substantial proportions of academics, union leaders, students, the press, local as well as central government officials, and members of the press remain vocal critics of structural adjustment.

5.5 However, on the whole, it is encouraging that policy-formulation has become more participatory, and that new and wider forums involving the private sector and civil society[22] are

[19] The SAC2 ICR devoted only two paragraphs to the subject of sustainability.

[20] These are all important and complex issues that obviously cannot be discussed more than cursorily in this PAR; they will however be assessed in more depth in the forthcoming CAR.

[21] Given that Uganda does not have formal political parties as such, there is no "party whip" system in the freer new Parliament to enforce the will of the leadership. Thus, while participation is broader, the ability of the leadership to push through reform measures of its choosing has to some extent been weakened by the political reforms.

[22] E.g. the Uganda Manufacturers Association and Private Sector Foundation in the private sector, and the SAPRI exercise involving representatives of local governments, NGOs and other parts of civil society.

debating the costs and benefits of continuing structural adjustment. There is still a long way to go, starting with the spread of information about the economy and policy issues among wider constituencies. Nevertheless, the "reform constituency" is now clearly much broader than it was only a few years ago. And clearly the benefits of improved security, low inflation, and increased production and income, although unequally distributed, have served to broaden support of the Government's economic policies and programs in both the public and private sectors. All this augers well for the sustainability of both the specific achievements of SACs 1 and 2 as well as the broader reform program which the SACs and subsequent adjustment operations have supported.

5.6 **Other Political Dimensions of Sustainability.** In much of Africa, political instability and internecine strife in the 1980s and early 1990s undermined the sustainability of economic reforms. Uganda's own history of ethnic tensions and civil war makes it important to consider how likely is the sustainability of peace and political cohesion in Uganda, without which the reform achievements of the last decade cannot be sustained.

5.7 Several important factors are working to strengthen such stability and cohesion: adoption of the local government statute and the rapid evolution of decentralization and economic decision-making; adoption of the new Constitution which increased the responsibilities of the Parliament; and the holding of elections, which widened participation and served to strengthen accountability at lower levels. Moreover, despite the diversion of considerable funds to political purposes, Ugandan elections did not "break the budget" as they did in Ghana during the early 1990s and in other countries simultaneously pursuing structural adjustment and greater democratization. In addition, the new cooperative arrangements with Kenya and Tanzania hold out promise of positive economic developments. These steps are all encouraging positive indicators of the sustainability of stabilization.

5.8 On the other hand, the conflict in northern Uganda and the turmoil in several of Uganda's neighboring countries have resulted in continuing (and recently rising) military expenditures. Until these problems can be resolved, they will constitute a serious drag on Uganda's growth prospects.

5.9 **The Unfinished Agenda of Adjustment.** Uganda has made good progress in terms of "getting its policies" right but it now needs to "get its institutions right" while pursuing a still-substantial unfinished agenda of adjustment. On the policy front, distortions in tax and tariff policy as well as problems in tax administration and compliance are still considerable. Tariffs, which continue to be distortionary (with widely varying rates of effective protection) and the high rate of taxation, particularly on petroleum (for revenue purposes), impose high costs and an anti-export bias on Ugandan producers. Private sector development is impeded by an uneven regulatory playing field, irregularities and delays by the judicial system in enforcing contracts, and by major problems in public utility performance, especially power.

5.10 In the public sector, roles remain to be redefined and there is no real plan in place to substantially strengthen management in the line ministries and agencies or improve civil service delivery in the near term. The sector also faces huge demands for developing both physical (especially roads, power and telecommunications) and social infrastructure, to improve the health and education of the population in catching up with the rest of Africa.

5.11 Some (but not all) of these issues are being addressed in SAC3. Progress is being made. But the rate of progress on these critical fronts is not yet sufficient to make one sanguine about the sustainability of Uganda's recent growth rates.

5.12 **Uncertain Sources of Future Investment and Growth.** The sustainability of economic growth in Uganda for many years to come will depend largely upon productivity gains in agriculture. The good news is that there is scope for improving yields severalfold with existing technologies. The bad news is that recent agricultural production gains have come almost entirely from bringing new lands under cultivation rather than from productivity improvements. Such a pattern of stagnant or declining productivity, combined with high population growth and environmental degradation, is obviously not sustainable. Clearly, more and better extension services and feeder roads are part of the solution. But the government does not yet have in place a credible action plan for addressing these three key sustainability issues.

5.13 A closely related sustainability issue is the need to accelerate export growth. Aid cannot be relied upon indefinitely to help finance Uganda's import requirements. The engine of export growth must be non-traditional exports, preferably of the higher-value-added sort, but given Uganda's landlocked status and its consequent high input and transaction costs, the near-term prospects for manufactured export growth—currently negligible—are not favorable. Here again it is not clear that progress on related critical fronts—improving the investment climate for foreign investment and improving the physical and institutional infrastructure—is proceeding fast enough to ensure sustainability.

5.14 Uganda's growth of the past decade was achieved with a modest overall rate of investment of about 16 percent of GDP (see para. 3.28). This was possible because most growth came from moving towards the production-possibility frontier through fuller use of physical and human capacities that had been underutilized. While there is still considerable scope in the near term for getting output gains without large investments through fuller use of capacities, especially in agriculture, achieving medium and long-term growth at a rate consistent with acceptable poverty reduction surely calls for raising investment--both public and private--substantially. Given the government's current problems in managing public sector projects and the state of the investment climate, the prospects of raising the investment rate to requisite levels (at least 25 percent of GDP) are uncertain.

5.15 **The Worrisome Matter of Corruption:** The international community has become increasingly concerned about corruption in Uganda[23]. The problem is evidently most serious at the URA (reflected in substantial smuggling of petroleum and other highly-taxed imports and in a very uneven application of taxes on individuals and firms) and at high levels of the government (including the military) and banking system where tendering, procurement and privatization arrangements are involved. Corruption is also seriously affecting the delivery of public services. And even when corruption is revealed, the courts have been slow to act and sanctions have been minimal. This situation clearly is having an adverse impact on Uganda's business and investment climates and in turn upon the likelihood that growth performance, which will depend increasingly upon increased private investment, can be sustained.

5.16 **Aid Dependency Issues**: Official development assistance (ODA) to Uganda declined as a share of Uganda's GNP from 20 percent in 1991 to 11 percent in 1996 but still remains very high as compared to other developing countries. (For Sub-Saharan Africa as a whole the ratios were 6 percent in 1991 and 5 percent in 1996). There is no question that during the period of SACs I and

[23] The 1998 "Corruption Perceptions Index" issued by Transparency International ranked Uganda as 73rd out of 85 countries (with first being least and 85th being most corrupt).

II, Uganda used its aid more effectively than many countries owing mainly to its responsible macroeconomic management, with avoidance of capital flight, white elephant projects, Dutch disease and other symptoms of mismanagement. For this reason, Uganda is regarded by many donors as highly "aidworthy" and it seems likely (barring major political changes) that relatively high levels of aid will continue to be made available for many years to come. And assuming that such aid were well used, whether in the form of project or non-project assistance, this augers well for Uganda's being able to sustain a satisfactory rate of growth and poverty alleviation.

5.17 **Overall Assessment of Sustainability.** The preceding section has perhaps too much "emphasized the negative." It has not however been intended to cast a pessimistic pall, as there are many reasons to be optimistic about sustainability. Having a responsive government, a good resource base, generally good policies and many friendly aid donors should, in a just world, suffice. Uganda has good measures of all of these. But it is Uganda's fate to have serious handicaps, among others its recent history of internal strife, its unstable neighbors, its landlocked state, its small size and underdeveloped infrastructure, and its poor states of health and education.

5.18 Some of these conditions it is not in the power of the government to change, and some can be changed only gradually. It is therefore all the more necessary that some improvements that are in the power of government to make—such as implementing the unfinished agenda of adjustment and curbing corruption—be taken as expeditiously as possible. The current pace of movement on these fronts is neither so slow as to warrant a sustainability rating of unlikely nor so fast as to warrant a rating of likely. The rating is therefore uncertain.

# 6. Lessons Of The SAC1-2 Experience

6.1 Experience with SACs 1 and 2 confirms lessons learned in other countries engaged in post-conflict reconstruction and highlights a few lessons not given much attention in past ICRs or PARs.

6.2 *SACs, as flagship operations of the Bank's country assistance strategy, should be truly strategic operations, not just bundles of nicely-packaged tactics.* The aim should be to use the considerable influence and leverage of SACs to focus on policy reforms that add up to a critical mass. Setting the bar high in countries such as Uganda in the early 1990s, where distortions were egregious and constraints formidable, admittedly entails a high risk of failure. The Ugandan experience confirms that there is no higher priority for SACs than getting the priorities right. More attention needs to be paid at an early stage of SAC preparation (through high-quality ESW) to articulating the criteria by which priorities for SAC objectives and conditions are to be set.

6.3 *Since the real payoff of adjustment operations may come well after the operations themselves have closed, evaluations need to take the country assistance program and its impact over time as the unit of account, rather than individual projects.* SACs 1 and 2 would not have been nearly as successful as they were had not considerable groundwork been laid under the preceding ERCs, both of which were found to have had unsatisfactory outcomes. Adjustment, especially in war-torn societies, is a long-haul process that calls for a long-haul strategy in which the direction and continuity of reform is more important than the pace.

6.4 *It is not enough that government in Uganda has been re-invented; it must also be re-engineered and a new ethos of the bureaucracy cultivated.* Uganda's government has been downsized, decentralized and re-organized but it remains to be "re-engineered" in the sense of redefining functions to get a better match between ambitious government objectives and responsibilities on the one hand and limited governmental capabilities on the other. Incremental efforts to improve salaries and capacities through short-term training programs are unlikely to achieve their desired results in the absence of a redefinition of governmental roles and functions. Decentralization is changing the locus of responsibility and accountability, but it is not by itself bringing about a better match between roles and capabilities. More radical approaches may be required.

6.5 *It is never too early to pay close attention to the quality and incidence of government service delivery. Incidence, end-use and other surveys should be an early and integral part of both ESW and project monitoring/evaluation activities in all sectors.* For many years, the Bank/GOU dialogue on expenditure priorities focused only on quantitative expenditure (input) targets and not enough on the incidence and quality of service delivery (end uses, outputs and outcomes). Surveys (by the Bank and other donors) have revealed how inadequate is the level and quality of service delivery in education and health and other areas. Surveys could provide important information to help government decide how to re-engineer itself.

6.6 *TA/capacity-building priorities and sequencing need to be well integrated with the policy and political reform agendas.* In recent years, the agendas of decentralization, civil service reform and expenditure reform—and the TA directed to each--have been poorly integrated and coordinated in Uganda. A corollary lesson is that getting the incentives right and getting the institutions right have to go together.

6.7 *SAC conditionalities may strengthen local ownership of a reform agenda.* Conditionalities may often weaken rather than strengthen ownership, but in Uganda, where the core team of reformists used Bank conditionalities to push their agenda, ownership was deepened and broadened, rather than undermined, over time as the reform program yielded benefits to the stakeholders. Where a government is itself deeply divided between reformers and opponents of reform, the large financing and leverage of SACs can sometimes provide a critical "tilt." However, now that ownership within the Ugandan government is broader, care must be taken to ensure that future conditionalities do not undermine ownership.

6.8 *The broadening and deepening of local ownership should be a strategic objective from the outset in countries such as Uganda where the ownership of reforms was initially confined to a small core team.* While progress has been made on this front, the sustainability of reform requires that more be done by the Bank, donors, and the government alike to disseminate information widely about economic issues and to discuss productively the costs and benefits of alternative economic and social policies.

6.9 *The quality of IMF/Bank cooperation is too dependent upon the personalities and proclivities of individual staff members on both sides. The relationship needs to be more actively monitored and managed.* Good working relations require constant exchanges of views, which need not always be in agreement. Indeed, given the different perspectives and mandates of the two institutions, assurances that "there are no differences between the institutions" may be regarded as a danger signal that there is not enough communication between staffs.

# Basic Data Sheet

## First Structural Adjustment Credit (Credit 2314-UG)

### Key Project Data *(amounts in US$ million)*

| | *Appraisal Estimate* | *Actual or current estimate* | *Actual as % of appraisal estimate* |
|---|---|---|---|
| Total project costs | 125.0[a] | 200.7[b] | 160.6 |
| Loan amount | 125.0[a] | 131.3[b] | 105.0 |
| Cofinancing[c] | 0.0 | 69.4 | -- |
| Cancellation | -- | -- | -- |
| Date physical components completed[d] | 1/31/94 | 7/31/96 | -- |
| Economic rate of return | NA | NA | NA |

[a] Does not include IDA reflows of US$ 1.4 million equivalent.
[b] Includes IDA reflows of US$ 1.4 million equivalent.
[c] Cofinancing from Switzerland (US$ 10.2 million), UK (US$ 25.8 million), and Norway (US$ 4.1 million).
[d] Date of loan closing.

### Cumulative Estimated and Actual Disbursements (amount in US$ million, percent)

| | *FY92* | *FY93* | *FY94* |
|---|---|---|---|
| Appraisal estimate (US$M) | 65.00 | 125.00[a] | 125.00[a] |
| Actual (US$M) | 41.80 | 83.00 | 129.91[a] |
| Actual as % of appraisal | 64.00 | 66.00 | 104.00 |
| Date of final disbursement: July 1993 | | | |

[a] Does not include IDA reflows of US$ 1.4 million equivalent.

### Project Dates

| | *Original* | *Actual* |
|---|---|---|
| Initiating memorandum | -- | 11/20/90 |
| Negotiations | -- | 10/08/91 |
| Letters of Development Policy | -- | 10/25/91 |
| Board approval | -- | 12/03/91 |
| Signing | -- | 12/91 |
| Effectiveness | 12/91 | 1/03/92 |
| Closing date | 1/31/94 | 7/31/94 |

## Staff Inputs (staff weeks)

| | *Total* |
|---|---|
| Preappraisal | 60.2 |
| Appraisal | 65.4 |
| Negotiations | 18.1 |
| Supervision | 68.6 |
| Other (Completion) | 10.9 |
| Total | 223.2 |

## Mission Data

| | *Date (month/year)* | *No. of persons* | *Staff days in field* | *Specializations represented* | *Implementation Status* | *Development Objectives* | *Types of problems* |
|---|---|---|---|---|---|---|---|
| Supervision | 2/92 | 3 | NA | Economists | S | U | Macro |
| | 10/92 | 3 | NA | Economists | S | U | Macro |
| | 7/93 | 2 | NA | Economists | S | S | |
| | 9/94 | 1 | NA | Economists | S | S | |
| Completion | FY95 | 1 | NA | Economists | HS | HS | None |

S=Satisfactory, HS=Highly Satisfactory, U=Unsatisfactory, NA=Not Available

## Other Project Data

Borrower/Executing Agency:

***FOLLOW-ON OPERATIONS***

| *Operation* | *Credit no.* | *Amount (US$ million)* | *Board date* |
|---|---|---|---|
| SAC I | C2314 | 125.0 | 12/3/91 |
| SAC II | C2608 | 80.6 | 5/10/94 |
| SAC III | N0230 | 125.0 | 6/6/97 |
| FSAC | C24960 | 100.0 | 5/20/93 |
| FSAC | C24961 | 1.0 | 1/14/94 |
| EDP | C2315 | 65.6 | 12/3/91 |
| EFMP | C2418 | 36.4 | 6/1/95 |

# Basic Data Sheet

## SECOND STRUCTURAL ADJUSTMENT CREDIT (CREDIT 2608-UG)

### Key Project Data *(amounts in US$ million)*

| | *Appraisal estimate* | *Actual or current estimate* | *Actual as % of appraisal estimate* |
|---|---|---|---|
| Total project costs | 87.9 | 94.6 | 107.6 |
| Loan amount | 80.0 | 85.7 | 107.1 |
| Cofinancing[a] | 7.9 | 8.9 | 112.7 |
| Cancellation | -- | -- | -- |
| Date physical components completed[b] | 6/95 | 1/15/96 | -- |
| Economic rate of return | NA | NA | NA |

[a] Kingdom of Norway.
[b] Project completion date.

### Cumulative Estimated and Actual Disbursements

| | *FY95* | *FY96* |
|---|---|---|
| Appraisal estimate (US$M) | 40.00 | 80.00 |
| Actual (US$M) | 41.84 | 85.74 |
| Actual as % of appraisal | 104.60 | 107.18 |

Date of final disbursement: March 27, 1996

### Project Dates

| | *Original* | *Actual* |
|---|---|---|
| Initiating memorandum | -- | 9/30/92 |
| Negotiations | -- | 6/6/93 |
| Letters of Development Policy | -- | 4/12/94 |
| Board approval | -- | 5/10/94 |
| Signing | -- | 6/22/94 |
| Effectiveness | 7/94 | 11/18/94 |
| Closing date | 12/95 | 3/28/96 |

## Staff Inputs (staff weeks)

| | *Total* |
|---|---|
| Preappraisal | 45.7 |
| Appraisal | 31.2 |
| Negotiations | 36.0 |
| Supervision | 54.8 |
| Other | 0.5 |
| Total | 168.2 |

## Mission Data

| | *Date (month/year)* | *No. of Persons* | *Staff days in field* | *Specializations represented* | *Performance rating* | *Rating trend* | *Types of problems* |
|---|---|---|---|---|---|---|---|
| Identification | 12/92 | 2 | 14 | Tax/Econ | NA | NA | |
| Preparation | 3/93 | 8 | 20 | Econ/All | NA | NA | |
| Appraisal | 7/93 | 11 | 14 | Econ/All | S | NA | |
| Supervision | 9/94 | 3 | 8 | Civil Serv. Reform | S | NA | |
| | 1/95 | 5 | 10 | Econ/All | | | |
| | 4/95 | 6 | 5 | Civil Serv. Reform | S | S | |
| | 6/95 | 5 | 4 | Econ/All | S | S | |
| | 6/96 | 5 | 5 | Custodian Board | S | S | |
| Completion | 2/97 | 1 | NA | Econ | S | NA | |

Note: "All" refers to all specialized skills required for the project: Economist, Tax Specialist, Custodian Board (legal) Advisor, Investment Code Specialist and Civil Service Reform Specialist.

## Other Project Data

Borrower/Executing Agency: *See Table from SAC I*

***FOLLOW-ON OPERATIONS***

**UGANDA: STRUCTURAL ADJUSTMENT CREDIT**
**POLICY MATRIX**

| Past Adjustment Effort | SAC Action Program | Monitorable Actions and Schedule |
|---|---|---|
| **1. Incentive and Regulatory System.** The objective is to help the Government consolidate and expand trade reform by reducing the distortions and impediments in the trade regime and by further simplifying export and import procedures. | | |
| The Government has made periodic adjustments to the official exchange rate such that the premium for the U.S. dollar over the free market rate has fallen from 365 percent in 1987/88 to 7 percent by October 1991; | a) agree on negative lists for imports and exports; | done |
| | b) set up and implement an import certificate system which will allow the importation of all items not on the negative list; | done |
| foreign exchange surrender requirements for all non-coffee exports have been suspended; | c) further reduce the differential between the official and foreign exchange bureau rates; | ongoing |
| the buying and selling of foreign exchange by foreign exchange bureaus has been legalized; | d) unify the exchange rate; and | by the end of 1991 |
| | e) eliminate the OGL/SIP. | condition for second tranche release |
| virtually all parastatal marketing monopolies, including coffee, have been abolished, and the Government has commenced reforming the coffee marketing system; | | |
| coffee producer prices have been increased; and | | |
| an OGL-type system to assure access to foreign exchange for manufacturing firms in selected sub-sectors has been introduced; this system has been supplemented by the Special Import Program (SIP), which serves all importers on a first-come-first-served basis. | | |

**UGANDA: STRUCTURAL ADJUSTMENT CREDIT**
**POLICY MATRIX**

| Past Adjustment Effort | SAC Action Program | Monitorable Actions and Schedule |
|---|---|---|
| **2. Investment Climate. The objective is to improve the climate for private sector production and investment by a) putting into effect the Government's new attitude towards investment promotion and regulation and b) speeding up the divestment of Custodian Board properties.** | | |
| **a) Investment Promotion:** | | |
| Exchange and trade system has been liberalized;<br><br>the restructuring and privatization of public enterprises is being addressed under various IDA-sponsored initiatives; and<br><br>a new Investment Code has been in force since January 1991; it simplifies regulations governing investments and provide incentives. | a) put in place, prior to the establishment of the Investment Authority, interim staff and procedures for the processing of investment licenses as provided by the Investment Code (1991); | done |
| | b) review existing industrial, immigration, health and environmental regulations and the enforcement procedures to ensure consistency with the new Investment Code; | done |
| | c) agree with IDA on the corporate structure, operating guidelines and procedures of the new Investment Authority; | done |
| | d) establish the Investment Authority; | done |
| | e) suspend the operations of the Industrial Licensing Board; and | done |
| | f) repeal the Industrial Licensing Act (1969). | condition for second tranche release |

| UGANDA: STRUCTURAL ADJUSTMENT CREDIT POLICY MATRIX | | |
|---|---|---|
| **Past Adjustment Effort** | **SAC Action Program** | **Monitorable Actions and Schedule** |
| **b) Custodian Board:** | | |
| **The Departed Asians' Property Custodian Board has been overhauled in order to speed up the disposition of properties; over 200 properties have been returned to their former owners.** | **g) restate Government policy on expropriated properties and confirm the objectives of the Custodian Board; establish criteria and procedures for achieving these objectives; and develop a compensation policy for those properties which are not subject to repossession claims;** | **done** |
| | **h) recruit records and file management expert; identify in writing any resource constraints;** | **done** |
| | **i) compile and review with IDA a detailed list of all the properties expropriated in 1972;** | **done** |
| | **j) develop a detailed classification of the properties, drawing a distinction between those covered by the Expropriated Properties Act (1982) and those not covered;** | **done** |
| | **k) issue a public statement setting out the legal status of the properties and the modalities for their disposal, and informing the public that a list of the properties is available at the DAPCB and will also be published in the Official Gazette;** | **done** |
| | **l) provide evidence to IDA that Government has submitted for publication in the Official Gazette the list of properties classified under j) above, also indicating which properties are currently being used by the Government for residential and office accommodation;** | **done** |

**UGANDA: STRUCTURAL ADJUSTMENT CREDIT**
**POLICY MATRIX**

| Past Adjustment Effort | SAC Action Program | Monitorable Actions and Schedule |
|---|---|---|
| | m) provide confirmation of prompt response to submission of evidence of ownership and Ugandan citizenship for properties not covered by the 1982 Act prior to Board presentation; and | done |
| | n) in case of properties covered by the 1982 Act, return to former owners provided that valid applications for repossession have been filed with the DAPCB and such properties are not included in the final list in respect of which Government has determined to conclude joint venture arrangements; and in respect of properties not covered by the 1982 Act, provide evidence of continued progress in responding to submissions of evidence of ownership and Ugandan citizenship by owners seeking repossession. | condition for second tranche release |

| UGANDA: STRUCTURAL ADJUSTMENT CREDIT POLICY MATRIX | | |
|---|---|---|
| **Past Adjustment Effort** | **SAC Action Program** | **Monitorable Actions and Schedule** |
| **3. Tax Administration.** The objective is to increase Uganda's domestic revenue effort and to enhance the ability of the Government to mobilize domestic resources so that the much needed improvements in Uganda's devastated economic infrastructure and services can be financed. | | |
| Simplification and rationalization of the tax and tariff system; | a) Government approval for the establishment of the National Revenue Board (NRB); | done |
| reduction in the number of customs duty rates to five, the number of sales tax rates to four, and the number of excise duty rates to two; | b) agree with IDA on the reduction in the number of tax exemptions granted; | done |
| sales tax to apply to all locally produced and imported goods; | c) agree with IDA on the reduction or freezing of the income-tax threshold; and | done |
| imported goods to be subject to a surtax, similar to the excise on locally produced goods, to provide adequate protection to domestic producers; and, | d) complete all transitional arrangements between the existing departments and the Uganda Revenue Authority and transfer all responsibility for revenue collection to the Uganda Revenue Authority. | condition for second tranche release |
| broadening of the tax base. | | |

**UGANDA: STRUCTURAL ADJUSTMENT CREDIT
POLICY MATRIX**

| Past Adjustment Effort | SAC Action Program | Monitorable Actions and Schedule |
|---|---|---|
| **4. Public Expenditure.** The objective is to ensure that significant improvements are made in economic and social infrastructure and in the provision of social services; to phase out unproductive and ineffective activities; and to institute a process of budgetary planning that enables Government to prioritize expenditure allocations. | | |
| Government has taken action to increase recurrent budget allocations for primary health, primary and secondary education, water supply, road maintenance, and agricultural research and extension;<br><br>it has agreed with IDA on the three-year Rehabilitation and Development Plan; and<br><br>it has embarked on a Budget Reform Program. | a) review with IDA allocations for non-wage operations and maintenance expenditures for critical programs and the wage bill in the 1991/92 recurrent budget; the 1991/92 development budget; and the three-year Rehabilitation and Development Plan; | done |
| | b) agree with IDA on a set of high-priority recurrent and development programs to be protected during budget implementation; | done |
| | c) incorporate these agreements (ie. under (a) and (b) above) into the 1991/92 budget; and | done |
| | d) release all budgeted allocations in FY91/92 for the high-priority recurrent and development programs in education, health, water supply, roads and agriculture; and | condition for second tranche release |
| | e) consult with IDA about the size and composition of the Rehabilitation and Development Plan at the next roll-over. | June 1992 |

**UGANDA: STRUCTURAL ADJUSTMENT CREDIT**
**POLICY MATRIX**

| Past Adjustment Effort | SAC Action Program | Monitorable Actions and Schedule |
|---|---|---|
| **5. Civil Service Reform.** The objective is to achieve an efficient and effective civil service, which is consistent with the country's resources, by streamlining the civil service to manageable and affordable proportions; paying the remaining civil servants competitive salaries; and providing civil servants with the skills and complementary inputs to do their job. | | |
| An Establishment Register for the civil service has been developed which has been instrumental in the elimination of some 20,000 ghost employees; | a) agree with IDA on Implementation Plan for civil service reform; | done |
| the work has now been extended to cover the Teaching Service and Local Authorities; | b) specify the four ministries that will be reviewed; | done |
| a 50 percent cut in group employees was implemented; | c) publish the revised salary scales for FY91/92; | done |
| the Public Service Review and Reorganisation Commission has issued its final report addressing key issues relating to civil service reform; and, | d) achieve the first annual targets in the Implementation Plan for ministerial reviews, civil service staff reductions, and pay reform, including | condition for second tranche release |
| the number of ministries has been reduced to 20. | (i) completing the reviews of the four selected ministries and agreeing with IDA on a program to implement the results of the reviews; | |
| | (ii) completing the design and development of severance policies and programs for displaced and retrenched staff and achieving the displacement targets for FY91/92; and | |
| | (iii) adopting a FY92/93 salary program, acceptable to IDA, and producing detailed proposals for the monetisation of benefits. | |

# OBJECTIVES OF THE AGRICULTURAL AND FINANCIAL SECTOR ADJUSTMENT OPERATIONS

## AGRICULTURE SECTOR ADJUSTMENT CREDIT (ASAC)

This project, supported by Credit 2190-UG for $100 million equivalent, was approved in December 1990 and closed in December 1996. It was a hybrid operation with an adjustment (quick-disbusing import support) component of $85 million and an investment component (largely for research and extension activities, later extended to include cotton seed financing and other activities) of $15 million.

ASAC's broad objectives were (i) to implement insitutional, price and tax reform in coffee procurement, marketing and export, including impromement of arrangements for the financing of coffee procurement and marketing; and (ii) to strengthen agricultural research, extension and sectoral management.

More specifically, the project aimed at transferring responsibility for financing coffee marketing from the Central Bank to commercial banks, at restructuring the parastatal Coffee Marketing Board as a commercial, albeit public, marketing organization within a competititve marketing system, at broadening private sector participation in coffee exporting, and at revising coffee export taxation to improve incentives for coffee producers.

The ICR for this project found the project outcome to have been satisfactory for both the policy-based and investment components. The main achievement was undoubtedly the privatization of coffee marketing, as evidenced by the facts that by the end of 1994 there were well over a hundred private coffee buyers and exporters active in Uganda, accounting for 73 percent of coffee marketing (and well over 80 percent by 1996) while the farmers' share of the export price rose from only 30 percent to 1991 to over 60 percent in 1996.

## FINANCIAL SECTOR ADJUSTMENT OPERATION (FSAC)

This project, supported by Credit 2962-UG for $100 million equivalent, was approved in March 1993 and closed in March 1995

FSAC's objectives were (i) to implement interest rate policies geared to maintaining positive real rates on deposit and preferential credits and to lowering non-preferential rates; (ii) to further reduced directed credit programs; to strengthen competition and efficiency in the banking system through reducing market concentration and encouraging greater private sector participation in all banks; (iii) to strengthen bank supervision and foster financial discipline through new legislation and regulations on loan classification, provisioning, and capital adequacy.

Other FSAC objectives were (iv) to enhance the authority, capacity, and financial position of the Central Bank through legal, organizational and procedural reforms; (v) to restructure and recapitalize the Uganda Commercial Bank and the Coop Bank; (vi) to assist with the development of money and capital markets; and (vii) to help develop the professions of bankers, accountant and auditors in Uganda.

The ICR for the project found that the FSAC had supported a major strengthening of capacity for monetary management and a strengthening of the financial system. Government ownership of financial institutions was substantially reduced, private sector involvement was encouraged, and remaining and new financial institutions seem to be on a sounder footing. The ICR also found, however, that the project's design was overly ambitious and that Bank staff underestimated the resistance to restructuring UCB and overestimated the capacity for institutional strengthening in the Central Bank.

*Structural Change in the Ugandan Economy*



| | 1970 | 1986 | 1994 | 1997 |
|---|---|---|---|---|
| **Total GDP** (index: 1970 = 100) | 100 | 93.9 | 158.7 | 190.2 |
| **GDP per capita** (index: 1970 = 100) | 100 | 57.5 | 76.7 | 84.4 |
| **Shares in GDP** (percent) | | | | |
| Agriculture | 48.0% | 57.9% | 49.0% | 42.5% |
| o/w Monetary Agriculture | 24.0% | 24.0% | 24.0% | 22.4% |
| o/w Non-Monetary Agriculture | 24.0% | 34.0% | 25.0% | 20.0% |
| Manufacturing | 7.0% | 5.4% | 7.0% | 9.0% |
| **Volumes of Exports** ('000s tonnes) | | | | |
| Coffee | 191.2 | 140.8 | 194.3 | 210.0 |
| Cotton: | 78.1 | 4.9 | 3.8 | 19.6 |
| Tea: | 14.9 | 2.8 | 11.0 | 16.0 |
| | 1969/70 | 1986/87 | 1993/94 | 1997/98 (1) |
| **Total Recurrent Revenue** (percent of GDP) | 14.6% | 4.2% | 9.7% | 11.5% |
| o/w Taxes on Domestic Activity | 9.0% | 1.5% | 4.6% | 5.6% |
| o/w Taxes on International Trade | 5.6% | 2.7% | 5.1% | 5.9% |
| o/w Export Tax | 2.5% | 1.7% | 0.0% | 0.0% |
| **Total Government Expenditure** (percent of GDP) | 20.2% | 10.1% | 21.0% | 17.8% |
| | June 1970 | June 1986 | June 1994 | March 1998 |
| Cash as a percent of Broad Money | 34.0% | 43.7% | 33.6% | 28.4% |
| **Broad Money** (M2) (2) as a percent of GDP | 17.0% | 7.2% | 8.4% | 12.7% |
| **Claims on Government** as a percentage of Total Domestic Credit | 23.0% | 44.2% | -0.06% | -31.4% |

(1) Excludes taxes on government procurement
(2) Using projections for June 1998.

MFPED
6/17/98

**Key Economic Indicators - HIPCs/PFP Case**

| | 1990/91 | 1991/92 | 1992/93 | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 |
|---|---|---|---|---|---|---|---|---|---|
| *Growth Rates:* | | | | | | | | | |
| GDP at Factor Cost | 5.2 | 3.1 | 8.4 | 5.3 | 10.6 | 8.5 | 7.0 | 7.0 | 7.0 |
| Gross Domestic Income | 4.7 | 2.6 | 7.9 | 8.3 | 17.2 | 7.8 | 4.3 | 7.4 | 7.2 |
| GDY per Capita | 1.7 | -0.3 | 4.0 | 4.9 | 13.7 | 4.8 | 1.4 | 4.5 | 4.3 |
| *DOD incl IMF and Arrears:* | | | | | | | | | |
| DOD, US$ million | 2,592 | 2,648 | 2,637 | 2,992 | 3,388 | 3,448 | 3,432 | 3,651 | 3,884 |
| DOD/Exports G&S, percent | 1283.0 | 1333.1 | 1090.1 | 869.9 | 496.3 | 461.5 | 441.5 | 438.8 | 425.3 |
| DOD/GDP at MP, percent | 78.0 | 92.7 | 81.9 | 75.2 | 59.9 | 57.4 | 52.6 | 49.4 | 46.4 |
| *Debt Service Obligations:* | | | | | | | | | |
| Debt Service, US$ million | 191 | 249 | 175 | 179 | 172 | 167 | 181 | 185 | 192 |
| Debt Service/Exports G&S, percent | 94.4 | 125.3 | 72.5 | 52.1 | 25.2 | 22.4 | 23.2 | 22.3 | 21.0 |
| Debt Service/GDP at MP | 5.7 | 8.7 | 5.4 | 4.5 | 3.0 | 2.8 | 2.8 | 2.5 | 2.3 |
| *Ratios to GDP at MP, Current Prices:* | | | | | | | | | |
| Gross Domestic Investment | 15.2 | 15.9 | 15.2 | 14.7 | 16.4 | 16.7 | 18.5 | 19.2 | 19.8 |
| Private Consumption | 92.0 | 90.6 | 89.1 | 85.4 | 84.3 | 84.8 | 82.2 | 81.1 | 80.3 |
| Gross Domestic Savings | 0.7 | 0.4 | 1.1 | 4.1 | 7.4 | 6.3 | 4.2 | 5.3 | 6.3 |
| Gross National Savings | 1.4 | 2.1 | 3.6 | 10.4 | 12.2 | 12.3 | 10.2 | 11.1 | 12.3 |
| Government Revenue 1/ | 7.5 | 6.8 | 7.3 | 8.3 | 10.0 | 10.3 | 11.0 | 11.9 | 12.6 |
| Government Expenditure | 14.7 | 21.2 | 18.6 | 18.7 | 17.6 | 16.3 | 16.2 | 16.1 | 15.8 |
| Overall Deficit, excl Grants | -7.2 | -14.4 | -11.3 | -10.4 | -7.6 | -6.0 | -5.2 | -4.2 | -3.2 |
| *BOP Statistics:* | | | | | | | | | |
| Exports Merchandise, growth rate | -15.7 | 22.2 | -1.4 | 24.2 | 30.5 | 30.5 | 21.3 | 4.0 | 4.3 |
| Imports Merchandise, growth rate | -10.2 | -19.9 | 15.4 | 33.0 | 42.7 | 4.9 | 2.5 | 7.3 | 6.7 |
| Exports GNFS/GDP at MP | 6.0 | 6.8 | 7.4 | 8.4 | 11.8 | 12.1 | 11.4 | 10.9 | 10.3 |
| Imports GNFS/GDP at MP | 20.2 | 20.4 | 21.7 | 22.4 | 24.5 | 26.7 | 25.7 | 24.8 | 23.8 |
| Current Account excl Grants/GDP at MP 2/ | -13.5 | -11.8 | -11.8 | -7.8 | -7.9 | -8.6 | -8.3 | -8.0 | -7.4 |
| Current Account incl Grants/GDP at MP 2/ | -5.6 | -4.6 | -3.5 | -1.5 | -2.5 | -4.0 | -3.6 | -3.8 | -3.5 |
| Current Account excl Grants, US$ million 2/ | -449 | -338 | -381 | -309 | -444 | -514 | -540 | -591 | -622 |
| Current Account incl Grants, US$ million 2/ | -187 | -132 | -112 | -59 | -142 | -237 | -232 | -280 | -295 |
| *Miscellaneous:* | | | | | | | | | |
| Annual Average Inflation (Composite), percent | 32.9 | 42.2 | 30.0 | 6.5 | 6.1 | 7.4 | 6.3 | 5.0 | 5.0 |
| Terms of Trade Index, 1991 = 100 | 108.1 | 91.6 | 88.3 | 106.9 | 199.6 | 135.5 | 108.7 | 109.1 | 109.1 |
| Gross Reserves, months of imports GNFS | 0.9 | 1.5 | 1.9 | 2.9 | 3.4 | 3.6 | 4.4 | 4.9 | 5.5 |

Source: Government of Uganda, IMF and staff estimates.
Notes:
1/ Includes windfall from Coffee Stabilization Tax in 1994/95 and 1995/96.
2/ Beginning in 1995/96, Private Transfers have been adjusted to estimate Direct Foreign Investment separately.

## ICR and PAR Ratings for SAC1 and SAC 2

| | **SAC 1** | | **SAC 2** | |
|---|---|---|---|---|
| | ***ICR*** | ***PAR*** | ***ICR*** | ***PAR*** |
| Outcome | Satisfactory | Highly Satisfactory | Satisfactory | Satisfactory |
| Sustainability | Likely | Uncertain | Likely | Uncertain |
| Institutional Development Impact | Partial | Substantial | Partial | Partial |
| Bank Performance | Satisfactory | Highly Satisfactory | Satisfactory | Satisfactory |
| Borrower Performance | Satisfactory | Highly Satisfactory | Highly Satisfactory | Satisfactory |

SWISS FEDERAL OFFICE FOR
FOREIGN ECONOMIC AFFAIRS

Economic Cooperation with
Developing and Transition
Countries / Financial Section II
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**UGANDA : First and Second Structural Adjustment Credits, Comments on Draft Performance Audit Report**

Dear Mr. Lamdany :

Please find below our comments on the Draft PAR on Uganda's SAC I and SAC II.

First of all, we would like to commend OED for this thorough and critical credit performance appraisal. Overall we can associate ourselves with the analysis of the SACs performance, as well as with the conclusions of the PAR in terms of lessons drawn. There are however a few points which, in our view, would have deserved more attention, both in the SACs design and implementation, as well as in the draft PAR.

- **Articulation between SAC I and SAC II** : the performance under SAC I is assessed more positively then the one under SAC II, the main reason for this being, as mentioned in the text, that « *SAC II did not have the same strong strategic thrust, and its design was too much in the nature of a « tactical Christmas tree ». There was also not as much deepening of reform under SAC II as would have been desirable* » (p.20). Although SAC II focused on the same 6 areas as SAC I, this focus was on specific activities rather than on more systemic issues crucial to deepen and broaden the reforms. However, the (long) preparation of SAC II largely overlapped with the implementation of SAC I, and it seems that a better articulation between the two programs could/should have been achieved. Ensuring the coherence and continuity of Bank programs is a key element in order for these programs to have a sustainable impact, and mechanisms for continuous monitoring and evaluation, such as defining a set of monitorable performance indicators for SAC I, would have helped in better designing SAC II.

- **Coherence of TA and capacity building with SAC's strategic objectives** : from the draft PAR it is difficult to assess the role and impact of the TA operations complementing the SAC. More insights would have been useful, for, as mentioned, « *the success or failure of the SACs was in no small measure a function of the success or failure of the TA operations geared to develop both the government's capacities to* *implement current reforms and to design next steps in the reform process* » (p.11). There are nevertheless indications in the text that the TA and especially the capacity-building aspects were insufficiently integrated with the SACs (see p.17, including footnote 14). This is regrettable, since a well focused TA and capacity-building program can be extremely effective to develop sustainable institutional capacities.

- **Explicit focus on poverty targeting** : Numerous studies have now shown that sound macroeconomic policies and reasonable growth rates have only a minimal impact on poverty reduction : one cannot count on the *trickle down* effect (this conclusion has also been recently reached by the Bank in the case of Bolivia). Therefore one of the major shortcomings of both SACs was their lack of specific poverty alleviation targeting. This shortcoming is rightly referred to in the text, but, as it constitutes in our view one of the most important lessons drawn from this PAR, it deserves to be mentioned explicitly in section 6 of the paper.

- **Sustainability :** sustainability of results should be the key objective of adjustment programs. Although sustainability is undoubtedly easier to assess ex post than to plan for ex ante, it is nevertheless strange that this issue was overlooked in the ICRs and that in designing the SACs no more attention has been devoted to it (also see above remark on capacity-building). Regarding the political dimension of sustainability, one important issue is to ensure that the adjustment and reform goals of the structural reforms program, as well as the political choices of the government, are consistent and adequately reflected in the medium term budgetary framework as well as in the observed pattern of expenditures. For example, increases in military expenditures may, beyond a certain level, threaten other objectives, in terms of investment spending for the social sectors, and may therefore jeopardize future poverty reduction and growth prospects.

We hope that these remarks will be useful and remain,

Yours sincerely,

Corinne Deléchat
Balance of Payments Support
and Debt Relief Operations

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