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Enhanced Structural Adjustment Facility
Policy Framework Paper, 1997/98–1999/2000

Prepared by the Ugandan authorities in collaboration with the staffs
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I. INTRODUCTION

1. Uganda has been implementing an ambitious and successful program of macroeconomic adjustment and structural reform since 1987, with strong support from multilateral and bilateral creditors and donors. The government's strategy of maintaining macroeconomic stability through appropriately tight fiscal and monetary policies, and of implementing a program of substantial economic liberalization has resulted in high sustained growth, low inflation, a steadily improving balance of payments, and an increasingly vibrant and diversified private sector. The government plans to continue and deepen structural reforms with a view to sustaining medium-term economic growth. This document focuses on the government's objectives, strategies, and policies for the three-year period 1997/98–1999/2000.

II. BACKGROUND

2. Substantial progress has been made since the implementation of economic and financial reforms began a decade ago. During the three-year period 1994/95–1996/97 covered by the second ESAF program, real GDP growth averaged 8 percent a year and underlying inflation (i.e., excluding food crop prices, which have fluctuated due to variable weather conditions) remained around 5 percent. The fiscal deficit (excluding grants) was reduced from 11.2 percent of GDP in 1993/94 to 6.5 percent in 1996/97 due to stronger revenues and a rationalization of development expenditures. The improvement in the fiscal position enabled the monetary authorities to gain control over monetary aggregates. The annual rate of growth of broad money fell from 33 percent at the beginning of the program to 16 percent in 1996/97, nonetheless allowing for a strong expansion in bank credit to the private sector. In line with these developments, the external current account deficit (excluding grants) declined to 6.1 percent in 1996/97, and a strong improvement in the overall balance of payments permitted a steady increase in international reserves to 4.6 months of imports of goods and nonfactor services. The elimination of government marketing boards, price controls, export taxes, and exchange restrictions contributed to a substantial expansion and diversification of the export base. The 1995 stock-of-debt operation with Paris Club creditors under Naples terms was an important factor in reducing Uganda's debt service ratio from 53.7 percent in 1993/94 to 18 percent in 1996/97.

3. The successful economic stabilization program was supported by a strong set of structural reforms, including many which were initiated during the period covered by the first ESAF arrangement. Liberalization of the payments system for current international transactions was completed, and further progress was made on trade reform. Export taxes were eliminated, and the level and dispersion of import tariffs, together with exemptions, were substantially reduced. All export bans were repealed and the list of prohibited imports was substantially shortened, the monopoly of all commodity marketing boards was eliminated, and all price controls were lifted. The privatization program was accelerated and the government divested either all or a majority of its shares in 72 public enterprises out of 123 slated for full divestiture. In the financial sector, necessary legal and regulatory reforms were largely completed with the revision of the Bank of Uganda Act and the enactment of the Financial Institutions

Act. The first stage of recapitalizing the Bank of Uganda was completed, numerous weak banks were restructured, capital adequacy ratios of banks were raised to appropriate levels, and major progress was made toward the privatization of the Uganda Commercial Bank (UCB), the nation's largest commercial bank. Substantial tax reform was realized with the creation of the Uganda Revenue Authority (URA), the introduction of a tax identification number (TIN) system, the introduction of new discretionary taxes, and the replacement of the sales tax and commercial transaction levy with a value-added tax. The civil service staff was reduced by more than 50 percent and the responsibility for many central government functions and services was delegated to districts within the context of the government's decentralization program.

4. More recent developments, however, have demonstrated the fragility of macroeconomic stability in Uganda. Following a four-year period during which the fiscal deficit (excluding grants) shrank by more than 2 percent of GDP a year to 6.5 percent of GDP in 1995/96, fiscal adjustment stagnated in 1996/97. The principal cause was lower-than-expected revenues due to a weakening in customs administration, and increases in tax fraud and smuggling, but substantial expenditure overruns indicate a need to strengthen expenditure control as well. The fiscal slippage was accommodated in part by the government's recourse to nonbank borrowing in the form of (interest-bearing) promissory notes. However, such a financing strategy is not conducive to long-run financial stability, and the government is fully committed to continuing the process of fiscal consolidation.

III. Objectives, Strategy, and Policies for 1997/98–1999/2000

A. Overview of the Three-Year Program

5. The principal objectives of the government's reform program remain sustaining high and broad-based economic growth and ensuring that the poor are able to participate in, and benefit from, increased economic activity. The overall strategy will focus on maintaining macroeconomic stability; liberalizing further the economy to promote diversified private sector export oriented growth; and undertaking structural and institutional reforms that will further reduce impediments to growth. These include implementing legislative and judicial reforms supportive of private sector investment and economic activity; improving physical infrastructure (with early emphasis on roads, schools, and health facilities); increasing social expenditures with a view to building human capital, primarily through improved access to education and health services; and pursuing good governance. These policies are key components of the government's Poverty Eradication Action Plan (PEAP), which focuses on reducing poverty through economic growth and human and physical resource development. The actions and strategies contained in the PEAP are embedded in the government's sector-specific policies presented in this paper. Fundamental to the government's development strategy will be the acceleration of, and in several cases completion of, ongoing structural reforms in the financial sector, public enterprises, civil service, tax policy and administration, and external trade. The government will direct proportionately more fiscal resources to social sectors, and improve the effectiveness of public resources through a program of decentralization and management

reform. The government is also aware of the need to further improve Uganda's statistical base, especially balance of payments statistics and social indicators.

6. The government of Uganda is committed to good governance and upholding the rule of law, which are critical to the achievement of fiscal sustainability, the effectiveness of public expenditures, and the development of private sector economic activity. The government will implement measures to enforce rigorously tax compliance, to ensure that customs procedures are being properly implemented, and to curb the incidence of smuggling and fraud. The government will intensify investigation into suspected fraud, and more vigorously pursue convictions and penalties within the law. To promote fiscal transparency and accountability, the government will substantially improve expenditure monitoring and control, and the timeliness of published audited accounts of the budget, district government finances, and public enterprises. Major improvements in the legal environment will be made by activating the Commercial Division of the High Court, establishing a Tax Division of the High Court to expedite tax-related legal disputes, and implementing any additional legislative and judicial reforms needed to help ensure the unbiased and efficient enforcement of legal procedures, contracts and regulations.

7. On the basis of this strategy and the policies outlined in this paper, the government expects to achieve during the period 1997/98–1999/2000: 7 percent per annum average real economic growth; inflation of about 5 percent per annum; a decline (following 1997/98) in the external current account deficit as a share of GDP;[1] and an increase in international reserves from the equivalent of 4.6 months of imports of goods and nonfactor services in 1996/97 to 4.9 months by the end of the program period. Achieving these objectives will require a continuation of appropriately tight fiscal and monetary policies. A reduction in the fiscal deficit (excluding grants) equivalent to 1.7 percent of GDP over the three-year period will be crucial to achieving the inflation target in light of the expected accumulation of international reserves. Such a fiscal adjustment would be consistent with a broad money growth target on the order of 13–16 percent per annum and continued strong growth in credit to the private sector.

8. Sustaining economic growth at about 7 percent per annum will require an increase in the overall investment to GDP ratio from 20.5 percent in 1996/97 to 23.1 percent in 1999/2000. This will require an increase in the national savings rate on the order of 2.9 percentage points of GDP, consistent with the modest 0.3 percentage point reduction in the current account deficit relative to GDP. The increase in the investment rate is expected to come entirely from the private sector. The effectiveness of this investment will depend on the choice, effectiveness, and the pace of implementing structural reforms on the part of the

[1] The current account deficit is expected to increase to 7.0 percent of GDP in 1997/98, compared with 6.1 percent in 1996/97, due to a temporary decline in export volumes. Note that the current account deficit will be higher following the reclassification of the capital account components currently included in private transfers. This reclassification is expected early in the PFP period following on current efforts to improve balance of payments statistics.

government. In particular, financial sector reform, including the successful restructuring and privatization of the UCB, the continued improvement in banking supervision, and the development of domestic money and capital markets will be necessary for the realization of the increase in private sector savings needed to finance a rising rate of investment. The efficiency of this investment will be influenced heavily by the government's programs for the development of human capital and physical infrastructure. Accordingly, the government will direct an increasing portion of its budgetary allocations toward education and health, and put in place mechanisms for monitoring the effectiveness of these expenditures. The government's public investment program will focus on the development of the nation's road system. Improved performance of the public utilities, which the government recognizes is crucial to the enhancement of private investment, will be realized primarily through the commercialization and (at least partial) privatization of these public enterprises, with early emphasis on the reform and further development of the power and telecommunications sectors.

B. Macroeconomic and Structural Policies

Fiscal policies

9. Recapturing the momentum of fiscal consolidation will be one of the most difficult challenges during the next three years. It will necessitate a substantial improvement in customs administration as well as improved expenditure control. With regard to expenditure policy, there are acute needs to increase budgetary outlays for health, education, physical infrastructure, and improved civil service remuneration. On the revenue side, there is limited scope for additional discretionary tax measures to boost revenues in the near term, while there is a need to institute tariff reform and reduce reliance on excise taxes, both of which are expected to have a substantial negative revenue impact in the near term. Consequently, reductions in the fiscal deficit during the program period will have to be realized primarily through a more efficient and determined enforcement of tax measures already in place with a view to broadening the effective tax base and collection rate.

10. The government has already taken steps to stem the deterioration in tax administration. The Uganda Revenue Authority (URA) was recently restructured and its statute was amended to increase its effectiveness. More effective procedures are being instituted at customs to improve administration and control fraud. In addition, the government implemented a number of new tax measures effective July 1, 1997, including: (1) a presumptive income tax; (2) the elimination of tax holidays; (3) a capital gains tax on business assets; (4) a tax on dividends and interest paid to residents; (5) an increase in vehicle license fees; and (6) tax clearance certificates for selected groups. The government will carefully review the costs of free export zones before they are established and, in any case, will ensure that tax holidays are not reintroduced in this or any other context. The government also implemented, effective July 1, 1997, reductions in the maximum import tariff from 30 percent to 20 percent; in petroleum excise

taxes by 10 percentage points; and in excise taxes on beer and soft drinks by 5 percentage points and 25 percentage points, respectively.[2] Consistent with these tax changes, revenues will become increasingly dependent on income and value-added taxes.

11. Looking ahead, with regard to tax policy, the government hopes to reduce further excises on petroleum products during the next several years to align them more closely with those in neighboring countries. The Income Tax Bill, currently before Parliament, provides for appropriate tax incentives through accelerated depreciation allowances, to replace the recently abolished tax holidays. With regard to tax administration, the tax authorities will strengthen the audit section of the URA and increase the number of ordinary VAT audits carried out on a regular basis, with a view toward addressing the underreporting of liabilities by a large number of VAT payers. It will also continue to take measures to improve overall VAT compliance in terms of filing and paying on time. With regard to reducing the incidence of fraud and corruption, the government, through the office of the Inspector General, has stepped up investigations of irregularities and tax evasion, and will intensify the pursuit of legal action against offenders. To improve customs administration, the Preshipment Inspection (PSI) threshold has been substantially lowered from US$10,000. To make this change effective, the government will, inter alia, implement an effective system to allow customs to detect consignments circumventing the PSI scheme, along with a system of progressive sanctions against consistent violators of PSI requirements. The government will also implement new measures to improve the effectiveness of the duty drawback system for exporters. Improvements in tax administration are expected to raise revenues by about 1 ½ percent of GDP during the three-year program period. However, given that measures being put in place to address fraud and weaknesses in customs administration are likely to have an impact with a lag, increases in the revenue to GDP ratio are not expected until the last two years of the program period.

12. The difficult revenue situation for 1997/98 suggests that the reduction in the overall fiscal deficit will have to derive from expenditure restraint. As the revenue to GDP ratio improves, there will be scope for reversing the reduction of the expenditure to GDP ratio implemented this year. Relative to 1996/97, the composition of expenditures will move increasingly toward outlays on government priority program areas (education, health, roads, agricultural extension, and justice), and a better paid (albeit) smaller civil service, with the share of defense and nonpriority recurrent spending declining progressively. No salary increases are provided for in the 1997/98 budget, although there may be some additional remuneration for those mid-level civil servants who were denied the “living wage” adjustment last year, provided that savings are realized from cuts in civil service size. The government will also seek during the three-year program to clear all outstanding domestic payment arrears, and

[2] Excise duties on petrol, diesel, and kerosene are now 215 percent, 160 percent, and 105 percent, respectively. Duties on beer and soft drinks are now 65 percent and 30 percent, respectively.

retire all outstanding promissory notes used to finance past expenditure overruns. The government will initiate with World Bank support a public expenditure review in 1997/98 focusing on adequate spending consistent with the provision of minimum basic services as outlined in the Poverty Eradication Action Plan.

13. Given the importance of ensuring the effectiveness and transparency of public expenditures at both the central and district levels, and of preventing any further accumulation of domestic payments arrears, the government will implement reforms to strengthen expenditure management and control. A coordinated planning and budget process between the central and district governments will be implemented during the program period. As an initial step, the government will complete the integrated sector programming exercise in the agriculture, health, and education sectors, and rationalize the budgets for these sectors in 1998/99. In order to improve expenditure control, no new promissory notes will be issued except to regularize domestic payment arrears outstanding as of June 30, 1997. To avoid the accumulation of new payments arrears, a system will be instituted to monitor commitments made by line ministries to ensure that they are consistent with budgetary provisions and cash releases. The government will also begin laying the groundwork in 1997/98 for implementing realistic budgeting in time for the 1999/2000 budget. As a first step, the government will prepare as an input to the 1998/99 budget a paper on policy issues that need to be addressed prior to adopting realistic budgeting.

Monetary and financial sector policies

14. Low and stable inflation will remain the primary objective of monetary policy, and broad money will continue to be the main intermediate target. Following the completion of the recapitalization of the Bank of Uganda (BOU) by December 1997, the BOU will rely progressively less on primary issuance of government securities for managing bank liquidity, and begin executing open market operations using its own stock of government securities. However, there may be a need for additional primary issuance of longer-term government securities to foster the development of markets for these instruments. To promote secondary market transactions the BOU will implement an automated book-entry system based on technical assistance provided by the Fund to expedite the settlement and transfer of securities. The BOU will also continue its efforts to broaden and deepen the government securities market through education of the nonbank financial sector and the public.

15. The determination of interest rates through the free interplay of market forces remains the government’s policy. Nevertheless, continued high intermediation costs, primarily as a result of the systemic problem of nonperforming loans, has resulted in high real lending rates and significant interest rate spreads. The financial sector reforms under way, and, in particular, the improvement in banking supervision to help ensure better risk management by banks, are expected to lead over time to a reduction in lending rates and a concomitant reduction in intermediation margins and enhanced responsiveness of lending rates to the signaling effects of the BOU’s main policy interest rates.

16. Over the PFP period, institutional and regulatory reforms in the financial sector will focus on the completion of ongoing bank restructuring, intensified banking supervision, the expansion of the capacity of the BOU to regulate nonbank financial institutions and possibly microfinance enterprises, and the completion of the recapitalization of the BOU. The government expects to privatize the Uganda Commercial Bank (UCB) by December 1997 and to complete the restructuring of the COOP Bank in the first year of the PFP period. Over the medium term, banking supervision will be strengthened through the training of new bank inspectors and through a program of annual on-site inspections of each bank. The BOU will improve its monitoring of foreign exchange exposure of commercial banks and reserve requirements on foreign exchange deposit accounts. The nonperforming assets recovery trust (NPART), whose mandate was extended by two years to October 1999, will receive the full support of the government in its attempt to recover the bad debts of the UCB and will aim to complete the collections within the program period. The government will also pursue a policy designed to stop losses and minimize budget costs associated with the Uganda Development Bank (UDB) in 1997/98. To help ensure that the financial sector does not expand more rapidly than the BOU's supervisory capacity, the BOU has extended its moratorium on new bank licenses until December 1999, with specified exceptions. The BOU will strengthen its supervision of nonbank financial institutions. To promote rural finance, the BOU will design an appropriate regulatory framework for the emerging microfinance sector and license the Post Office Savings Bank as a financial institution. If necessary, the government will also provide a small subsidy to keep selected rural branches of the UCB operating, following the privatization of the bank.

17. The exchange rate will continue to be market determined, with the BOU intervening only to the extent necessary to smooth seasonal fluctuations, mindful of its international reserve and inflation objectives. In addition, the central bank will continue to review this policy in light of potential temporary shocks to the country's international terms of trade.

External sector policies

18. Achievement of a sustainable long-term balance of payments position continues to be the aim of external sector policies. Recognizing that Uganda's future economic growth is closely linked to international trade, external policies will focus on promoting export growth, diversifying the export base, and encouraging nondebt creating capital inflows. To help achieve these objectives, the government lowered the maximum import duty from 30 percent to 20 percent effective July 1, 1997, will reduce it further to 15 percent in July 1998, and introduce a low uniform duty in 1999/2000. The duty drawback system for exports will be made more effective and export documentation will be streamlined. The four remaining import bans (on beer, soft drinks, automotive batteries, and cigarettes) will be phased out over the next two years. To ease the adjustment, temporary additional tariffs will be levied on these products for no more than two to three years from their introduction. In addition to harmonizing and reducing external tariffs through active participation in the Cross-Border Initiative and COMESA, intraregional trade barriers are being dismantled and cooperation enhanced, notably, in the areas of payment settlements, transportation, and communication.

19. Following the successful liberalization of the current account, capital account transactions were liberalized effective July 1, 1997. A new foreign exchange statute, as well as legislation with respect to money laundering, will soon be submitted to parliament, and the Exchange Control Act will soon be repealed. New reporting requirements for commercial banks have been introduced to improve balance of payments data with particular emphasis on private capital flows, private transfers, and trade. The agenda for external sector reforms will be essentially completed early in the PFP period.

Other structural and institutional reforms

Privatization

20. The government's privatization program plays a vital role in its overall strategy of relying increasingly on the private sector as the source of income generation and investment. The government intends to accelerate the privatization program by divesting larger enterprises, streamlining the process, and broadening share ownership. It will conduct the privatization program transparently and intends to have either divested all of its shares or to have relinquished management control to strategic investors in 95 enterprises by June 1998, and the remainder by June 1999. Any residual shares will be offered to the public through the securities exchange. The government will closely monitor the disposition of privatization proceeds and use them only for preparing firms for privatization, severance pay for workers, and other expenditures directly related to the restructuring of enterprises to be divested.

Public enterprises and utilities

21. The purpose of the government's public enterprise reform program is to improve the quality and coverage of infrastructure services by increasing competition and private sector participation, and improving the legal and regulatory framework for power, telecommunications, water, railways, posts, and aviation. The government's overall strategy will focus on six aspects of reform: (1) privatization; (2) regulatory framework; (3) budget support; (4) enterprise arrears; (5) redundant staffing; and (6) noncore activities. Privatization will play an important role in this reform program. In particular, the government intends to privatize the telecommunications industry in 1997/98 and the state-owned airline in the following year. The government intends also to, at least partially, privatize the Uganda Electricity Board (UEB). In addition, it is amending legislation to allow for free entry and competitive markets in these sectors. With regard to industry regulation, the government will decide by December 1997 whether public enterprise regulation will be undertaken by a single, independent cross-sectoral regulatory body, or by individual regulatory agencies under line ministries. Government subsidies to enterprises take a number of forms: nonbudgeted direct subventions from line ministries, extension of low-interest loans, and passive acceptance of nonpayment of tax and debt obligations by the enterprises. The direct subventions will be made explicit in the 1998/99 budget, and will be eliminated over the course of the next three years (except for subventions relating to agreed social missions). All direct and indirect subsidies to public

enterprises will be phased out over the next four years except for direct subventions for agreed social missions. The Debt Settlement Committee will carry out a swap of bilateral claims between the public utilities and government, as at end-June 1997, by December 1997. The public utilities will submit in 1997/98 for government approval strategies and schedules for eliminating all outstanding payment arrears and for reducing their stocks of accounts receivable. To help restore normal financial operations of the enterprises and to help make transparent the source of financial problems, the government began this fiscal year to endeavor to meet all its payment obligations to public enterprises on time regardless as to whether or not the enterprises are current on all their tax and debt obligations to government. While the government will continue to onlend concessional loans received from multilateral and bilateral creditors, it will do so at market interest rates to help ensure that public enterprises respond to the same market signals as their private sector competitors. Finally, the UEB and the Uganda Railways Corporation (URC) have begun to implement an orderly downsizing of their staffing, and will, over the course of the current fiscal year, divest themselves of most noncore activities.

Public service reform and decentralization

22. Public service reform and the decentralization process continue to be pursued within the context of the government's Public Service Reform Strategy, which is aimed at (1) optimizing the size and structure of the civil service; (2) job training, evaluation, and pay reform; (3) strengthening of control systems; and (4) monitoring and improving operating efficiency and effectiveness. The government will complete by April 1998 its final review of ministerial staffing, mandates, and responsibilities in light of the greater delegation of functions to districts in accordance with the process of decentralization. Specific staff reductions in the central ministries affected by decentralization (e.g., health and education) will be a continuous process and will be accelerated if necessary in light of the findings of the final reviews. The government will complete its review of the salary structure of the public service in 1997/98, and will implement in 1998/99 a job evaluation and grading program that will permit a closer linkage between workers' performance and remuneration. The government will continue to strengthen personnel management and establishment of control systems; computerization of the management system and the necessary training of staff are expected to be completed by 1999/2000. With regard to the implementation of ROM, the government has initiated the National Service Delivery Survey (NSDS), which will cover all 45 Districts of Uganda and will focus on key services delivered by five pilot ministries (including education, health, and agriculture). In addition to supporting ROM, the NSDS will provide the government with information to measure the quality of services delivered to the people by central and district government in addition to providing a basis for government decision making.

23. Several actions will be undertaken to reform the pension system for civil servants, teachers, and the army. The government will conduct a pension census for validation of pension records and the subsequent development of a computerized registry. Thereafter, the results of an actuarial valuation will guide the selection of a revised pension scheme and longer-term management of the system, which will address, inter alia, the formula for

computing pension benefits and the impact of changes in the cost of living on pension benefits. The National Social Security Fund (NSSF), which is a provident fund covering qualifying private sector employees, will continue to limit the interest credited to beneficiaries for the next two years in order to restore solvency of the system. Thereafter, a fully funded NSSF will match the interest paid to contributors with the return on assets (net of management expenses), thereby operating as a true investment fund, until the proposed conversion of the NSSF into a defined benefits pension scheme is completed.

Sector policies

Agriculture

24. The government's agricultural strategy will focus on improving domestic and international market access, increasing domestic competition, enhancing research and extension services, and improving the rural highway and feeder road systems. To this end, the government will increase expenditures on agricultural research and extension services, and on rural highways and feeder roads. The Uganda Coffee Development Authority, the Uganda Tea Authority, and the Cotton Development Organization will be transformed into industry-based organizations focusing on the provision of market information, product grading, and other industry-wide services. The government will privatize nearly all of the agricultural enterprises remaining in government hands in 1997/98, including the Coffee Marketing Board (mainly coffee-roasting facilities), the Produce Marketing Board (mainly silos and warehouses), and large sugar and dairy concerns. The dissemination of extension and research services deeper into rural areas will be intensified, with emphasis on technology used by poor subsistence farmers. The government will undertake a review of marketing regulations on agricultural inputs and outputs with a view to removing any remaining restrictions. The government will finalize preparations of a land law in 1997/98, based on popular participation, to improve the security of land tenure and encourage the spread of freehold land ownership.

Transportation

25. Roads The government's transportation strategy will focus on the road system in line with the Ten-Year Road Sector Development Programme 1996/97–2005/06 (RSDP). The emphasis will be on strengthening institutional capacity for road sector program management and the provision of a technically sound, economically justified, and financially sustainable infrastructure by ensuring adequate funding for road maintenance and network improvement. The policy will also emphasize increasing private sector involvement in the preparation, execution, and supervision of road works in tandem with efforts to develop the domestic construction and consulting industry. A five-year program has been developed with the assistance of the World Bank covering the first phase of the RSDP. The government is committed to increasing its share of funding of routine maintenance expenses to 100 percent by 1999/2000. It will also increase its funding for road rehabilitation and network improvement during the program period by 240 percent relative to 1996/97 levels. In parallel, the share of trunk road maintenance work contracted to the private sector will increase from 65 percent

in 1996/97 to 85 percent by 2000/01. Plans are also under way to develop a prioritized feeder and urban road program in 1997/98 similar to the one for the main road system, which would include training and capacity building for district and urban councils.

26. Railways and aviation. The Uganda Railway Corporation (URC) is currently covering operating expenses by incurring payment arrears (including taxes and wages) and by liquidating assets. As a first step toward developing a policy with regard to the URC, the government will, through the office of the Auditor General, perform a complete and thorough financial audit of the company. The government will develop a strategic plan for the URC based on a study to be completed in 1997/98. The study will assess the viability of the corporation, and make proposals for its future, including possible private sector involvement. A program for reducing the staff of the URC in 1997/98 will also be implemented. With regard to aviation, the government will complete renovations of the Entebbe Airport, and reorganize the Civil Aviation Authority. The Uganda Airlines Corporation is scheduled for privatization in 1998/99.

Power

27. A reliable and cost-efficient supply of electric power is crucial for sustaining economic growth and improving living conditions. The government has submitted to parliament an amendment to the Electricity Act (1964), which would eliminate UEB's monopoly in power generation and would transfer its regulatory functions to the Ministry of Natural Resources, pending parliamentary approval of the Electricity Reform Act. The government will approve by October 1997 a strategic plan for the power sector, consistent with the objectives of promoting competition and private sector participation in the power sector. The strategic plan will specify the sector structure, the regulatory and legal framework, the privatization plan, and an implementation schedule. A key component of the strategy will be the privatization of the UEB's distribution assets and operations, and by June 30, 1998 the government will issue an invitation to bid for the sale of these assets and operations, with the final sale to a core investor expected in 1999/2000. By January 1998, the government will present to parliament the Electricity Reform Act based on the policy goals contained in the strategic plan.

Telecommunications

28. The reform of the telecommunications sector is well advanced. Following an open tender process, the government has prequalified five firms to bid on a second national operator license. The final contract, scheduled for signing by March 1998, is expected to result in a doubling of the number of telecommunication lines (from 45,000) in the country within three years. The Uganda Communications Bill, which was approved by parliament in August 1997, formally authorizes the break-up of Uganda Posts and Telecommunications Corporation (UPTC) into Uganda Telecommunications Ltd. (UTL), which will be privatized; Uganda Posts Ltd. (UPL), which will remain a public enterprise; and the Uganda Communications Commission (UCC), which will assume regulatory responsibility for the sector. The government will initially offer 51 percent of the UTL for sale to a core investor who will assume management

responsibility. The residual shares will be offered to the public at a later date via the Capital Market Authority (securities exchange). The government expects the contract to result in an additional 150,000 lines within five years.

Water supply and sanitation

29. The government's national water delivery policy will focus on the extension of the urban and rural water networks, and increasing the role of the district water offices, local councils, and the private sector in the planning, construction, operation, maintenance, and financing of the nation's water systems, consistent with the process of decentralization and liberalization. The government's Second National Water Supply Project, which is being supported by the World Bank, is due to be completed in 1998, by which time the water systems of Kampala and four major urban areas will have been expanded. As uniform water rates will apply across the water supply systems operated by the National Water and Sewerage Corporation (NWSC), the corporation will be granted the flexibility needed to facilitate the cross subsidization, while ensuring that the average tariff rate covers marginal cost. The government is reviewing the potential for privatizing certain portions of the NWSC, such as bill collection and selected maintenance services. The Directorate of Water Development (DWD) will, for the near term, retain principal responsibility for the construction and rehabilitation of the country's rural water systems. The DWD has begun construction and rehabilitation of water systems in 50 of 250 towns identified under the Rural Towns Water and Sanitation Programme, which is receiving World Bank support. Upon completion, these systems will be turned over to the communities to operate and maintain.

IV. Human Resource Development and the Environment

A. Education

30. The government's strategy for education will focus in the near term on increasing public spending on primary education, the definition and implementation of a well-defined minimum set of educational services, increased accountability and efficiency in public spending on education, and the implementation of the decentralization program for education. The government's overall strategy addresses five basic weaknesses of the current system: (1) unequal access to education services; (2) high private costs of primary education; (3) poor delivery systems; (4) weak financial accountability; and (5) low quality of education. The first two weaknesses are being addressed through the ongoing Universal Primary Education (UPE) program, under which the government will bear all tuition and some of the material costs for primary education for four children of every family. The latter three points will be addressed initially through the use of the conditional grant mechanism as an incentive for districts to move toward meeting minimum service standards, improving teacher training and the quality of educational materials, and then through the sector management reform program being implemented in the context of decentralization. Furthermore, a reform of the finance management system for schools has been designed to increase efficiency, transparency, and accountability at all levels. However, the system needs to be streamlined and made consistent with the

decentralization process. The operational strategy to attain these objectives will be completed in 1997/98. Toward the end of the program period, the reform of secondary education will be addressed.

B. Health and Nutrition

31. The government will increase the share of recurrent fiscal expenditures allocated to the health sector with particular emphasis on cost-effective preventative and public health programs, lower-level clinical facilities, and health education and information. The government will also design a monitorable minimum package of health services. Resources will be directed to the reduction of diseases that contribute the most to mortality and morbidity rates, with special focus on AIDS and malaria. The government will also increase sector financing through user charges, health insurance, and community financing schemes. To improve effectiveness of expenditures, management of decentralized health services will be strengthened. The Ministry of Health will be restructured to assume its new role of setting health policy and providing technical support to districts. District level responsibilities will be well defined, and capacity for planning and management will be reinforced, and district health plans to provide the basis for planning, management, and coordination of district health services. The government will provide a greater role for NGOs, the private sector, and communities in the provision of health services. The government will begin work in 1997/1998 on a five-year health plan covering the period 1997/98 to 2001/2002 and update the White Paper on Health Policy to take account of policy changes affecting the sector, including the decentralization of health services. In spite of a relatively high per capita availability of food, Uganda's nutritional situation is alarmingly poor. To address this problem, the government will implement a program to improve nutrition through a package of locally based interventions including growth monitoring and promotion, parental education, and community-initiated activities. This program is supported by IDA's Nutrition and Early Childhood Development Project, and the District Health Service and Demonstration Project.

C. Environment

32. The government identified the priority environmental problems and articulated its environmental objective and strategy in the National Environmental Action Plan (NEAP), approved by the government in January 1994. While the government is committed to the environment agenda, progress toward implementing the NEAP has been somewhat slow due to lack of capacity. The National Environmental Management Authority (NEMA) was established in 1996 to coordinate interministerial implementation of the NEAP and serve as a central environmental policy advisory board in management and coordination of environmental issues. The NEMA will take on a more active role in the medium term. The government will improve the management of conservation areas with a view to exploiting environmentally oriented tourism and other environmentally sustainable income-generating activities for local communities. To increase effectiveness in this area, the government has merged the functions of the Game Department and the Uganda National Parks under a newly created Uganda Wildlife Authority (UWA), which has been given overall responsibility for all parks and game reserves

and for all wildlife in the country. At this stage, the UWA's capacity to fulfill this mandate is insufficient and support to the UWA to strengthen its financial and overall management is being provided.

V. External Financing Requirements and Debt Sustainability

33. The relatively modest improvement in the current account deficit (relative to GDP, excluding official grants) during the program period reflects the fact that the trade balance was exceptionally strong in 1996/97, owing to higher-than-expected exports. Some deterioration in the trade balance is expected this year, reflecting temporary declines in export volumes and the continued buoyancy of imports arising from strong domestic demand. The average price of Ugandan coffee is expected to average about US$1.31 per kg. during the program period. Coffee export volumes are expected to fall initially, due to the lagged effects of disease and drought, but will recover fully by 1999/2000. Following the sharp increase in gold exports in 1996/97, noncoffee export growth is expected to moderate initially before regaining momentum.

34. The financing requirement for 1997/98 amounts to US$1,037 million, reflecting a current account deficit (excluding official grants) of US$475 million, scheduled amortization payments of US$148 million (of which over one-third represents repayments to the Fund), a US$66 million increase in gross reserves (which will keep import coverage constant at 4.6 months), and a US$33 million net outflow of other capital. The first-year program is expected to be fully financed. Disbursements of official grants and loans from existing commitments for nonproject and project financing are expected to reach US$329 million and US$310 million, respectively, along with Fund disbursements of US$56 million. Debt relief on comparable Naples terms being sought from non-Paris Club bilateral and commercial creditors is expected to close the remaining gap. The total financing requirement over the three-year period is projected at US$2.5 billion and is expected to be covered by nonproject loans and grants ($455 million), project support (US$1.4 billion), IMF disbursements (US$139 million), and debt relief of US$460 million, of which approximately US$60 million would be provided under the HIPC Initiative. Given Uganda's highly volatile and uncertain terms of trade, the financing requirements provide for an increase in reserve cover to 4.9 months in 1999/2000.

35. Uganda's total external debt amounted to US$3.5 billion at end-June 1996.[3] The net present value (NPV) of this debt is calculated to be US$1.7 billion, equivalent to roughly 62 percent of GDP and 294 percent of exports of goods and nonfactor services (based on a three-year average ending June 1996). Roughly 75 percent of Uganda's debt is held by multilateral creditors, another 22 percent by bilateral creditors, and the remaining 3 percent by

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[3]See the most recent Debt Sustainability Analysis (DSA) included in Uganda's Final HIPC Document (April 1997). An updated DSA will be prepared in the context of the midterm review of the first annual ESAF arrangement and the "completion point" under the HIPC Initiative.

commercial lenders. Under the proposed economic program, Uganda's debt-service ratio would decline from 18 percent in 1996/97 to 16 percent (after rescheduling, but excluding potential HIPC relief) by 1999/2000.

36. Uganda has made significant progress in reducing its debt burden in recent years. Pursuant to the stock-of-debt operation on Naples terms from Paris Club creditors in 1995, efforts continue to achieve at least comparable debt relief from non-Paris Club bilateral and commercial creditors. With a continuation of sound economic policy management, Uganda's debt indicators are expected, nevertheless, to remain above sustainable levels during the PFP period, and the economy continues to be highly vulnerable to external shocks. In this context, and under the auspices of the HIPC Initiative, Uganda has qualified for additional exceptional debt relief on its bilateral and multilateral external debt. At its "completion point," following the midterm review under the first annual ESAF arrangement (expected in April 1998), it is expected that Uganda's multilateral creditors would take the necessary action to reduce the NPV of their claims as at end-June 1996 by 21 percent, along with commensurate action by bilateral creditors, so as to achieve an NPV of external debt to export target of 202 percent (+/- 10 percentage points) at end-June 1997.

37. The government's Enhanced Debt Strategy aims to secure grants wherever possible with borrowing, which would only be on highly concessional terms, targeted toward projects that engender high economic and social returns. The government will continue to improve its capacity to monitor its external debt to enable it to meet all its external debt service obligations in a timely and transparent manner. A permanent technical working group, comprising the debt and macroeconomic units of the Ministry of Finance and Bank of Uganda, will continue its efforts to integrate debt analysis into policy formulation and to facilitate coordination through quarterly reports within government and to donors. With external assistance, capacity-building and internal debt management structures will be buttressed and steps will be taken to ensure that debt management skills are disseminated widely among the core economic agencies.

VI. Technical Assistance Requirements

38. The government has benefited from substantial technical assistance from bilateral and multilateral creditors and donors, and intends to continue to avail itself of additional assistance in a wide range of areas. With regard to fiscal operations, additional technical assistance is envisaged in the areas of VAT auditing and collection, customs administration, and expenditure management. Assistance will also likely be sought in the areas of civil service, pension, public enterprise reform, and on economic and financial statistics. The government is committed to improving the monitoring of social expenditures and on the collection of reliable data on social indicators, and will be seeking technical assistance in this regard. The Bank of Uganda will seek technical assistance in the area of developing secondary markets in treasury bills. The government will review progress made in implementing recommendations of past technical assistance with a view to assessing the effectiveness of such assistance and to identify areas in need of additional support.

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
1. Fiscal Policies				
A. Revenue	Improve tax administration, enhance tax base, and reduce distortions in tax system	Restructure URA	1997	DfID
		Implement changes in customs management and administration and improve internal audit procedures	1997/98	DfID
		Enact income tax legislation (with no reinstatement of tax holidays)	1997	
		Audit VAT returns, improve filing and payment compliance	1997/98–1999/2000	Fund
		Mineral taxation legislation tabled in Parliament	March 1998	
		Restructure tariffs and excise taxes	1997/98–1999/2000	
B. Expenditure and budget control	Improve budget management	Prepare Cabinet paper on policy issues to be resolved as a first step in the move toward realistic budgeting	March–June 1998	
		Improve expenditure control mechanisms	1997/98–1999/2000	
		Cease issuing promissory notes except to regularize domestic arrears accumulated prior to July 1, 1997	Effective from July 1, 1997 onward	
		Limit supplementary expenditures to no more than 3 percent of budgeted expenditures	1997/98–1999/2000	
		Ensure that all cash releases are recorded appropriately and provided in a timely manner	1997/98	
		Initiate with World Bank support a public expenditure review focusing on basic services	1997/98	
		Increase allocation for priority program areas and for development budget	1997/98–1999/2000	

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

	Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
2.	Monetary and Financial Sector Policies				
A.	Monetary policy	Maintain low and stable inflation	Strengthen the use of indirect instruments by promoting secondary markets in treasury bills	1997/98-1999/2000	Fund/World Bank
B.	Institutional reforms	Promote efficiency and soundness of banking system	Conduct annual on-site inspections of at least 40 percent of commercial banks	1997/98	
			Announce new regulations regarding reserve requirement on foreign exchange deposits held at commercial banks	July 1997	
			Improve monitoring and enforcement of foreign exchange exposure limits of commercial banks	1997/98	
			Recapitalize BOU	December 1997	
			Privatize Uganda Commercial Bank (UCB)	December 1997	
		Promote rural finance	License Post Office Savings Bank as a financial institution	1997/98	
3.	External Sector Policies				
A.	Exchange and trade liberalization		Liberalize external capital account transactions; submit new Foreign Exchange Statute to Parliament	July 1997 November 1997	
		Promote trade, reduce anti-export bias and other tax-induced distortions	Reduce maximum tariff rate to 20 percent for non-COMESA imports, and to 15 percent subsequently	July 1997	
			Implement more effective duty drawback scheme for exports	1997/98	
			Eliminate import bans on soft drinks, beer, and automotive batteries	March 1998	
			Eliminate import ban on cigarettes	June 1999	

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

	Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
B.	Debt strategy	Improve debt profile	New concessional borrowing only on IDA, or better, terms	1997/98–1999/2000	
			Limit amount of annual nonconcessional debt contracted or guaranteed by the government to US$10 million	1997/98-1999/2000	
4.	Structural and Institutional Reforms				
A.	Private sector development	Enhance private sector's capacity to generate economic growth	Draft/revise commercial related legislation and improve related judicial processes to improve environment for private sector:		
			(1) Draft new Commercial Law and obtain Cabinet approval	December 1997	World Bank
			(2) Activate Commercial Division of High Court	December 1997	
			(3) Establish Tax Division of High Court to expedite tax-related disputes	1997/98	
		Promote private equity and security markets	Begin offering residual shares in partially privatized enterprises to public via the Capital Markets Authority	December 1997	
B.	Public service reform	Improve effectiveness and efficiency of the public service	Further restructure public service in light of decentralization	1997/98	World Bank
			Implementation of results-oriented management system	1997/98	
			Implement job evaluation and merit pay system	1998/99	
			Strengthen personnel management and control systems	1997/98–1999/2000	DfID
			Complete National Service Delivery Survey	1997/98	World Bank
			Initiate analysis of future need for teachers in light of increased primary enrolment due to UPE	1997/98	World Bank

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
	Rationalize public service pensions and separation benefits	Finalize policy regarding pension and separation benefits and complete study on long-term financial require-ments of revised benefit scheme	December 1997	
C. Privatization and public enterprise reform	Reduce the role of the government in commercial activities and increase exposure of retained public enterprises to market signals	Relinquish government management control to core investor or divest at least 51 percent of government shares in a cumulative 95 enterprises	1997/98	
		Relinquish government management control to core investor or divest at least 51 percent of government shares in cumulative 123 enterprises	1998/99	
		All direct subventions from budget to public enterprises to be properly reflected in the budget and eliminated over next three years, except for agreed social missions	1998/99	
		All direct and indirect subsidies to public enterprises to be eliminated over the next four years, except for direct subventions for agreed social missions	1997/98-1999/2000	
		Loans from government to public enterprises to be made at market interest rates	1997/98–1999/2000	
		1995 audited accounts of URC submitted to government	November 1997	
		1996 management accounts of URC submitted to government	December 1997	
		Debt Settlement Committee resolution of bilateral claims as at end-June 1997 between government and public utilities	December 1997	

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

	Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
			UEB and NWSC to submit for government approval timetables and strategies for reducing accounts receivable and payable	December 1997	
5.	Sectoral Policies				
A.	Agriculture				
	Marketing	Improve incentives for producers of cash crops	Review and streamline marketing regulations	1997/98	
	Coffee	Improve incentives and efficiency	Complete divestiture of government shares in Coffee Marketing Board	1997/98	
			Finalize restructuring of Uganda Coffee Development Authority (UCDA) as an industry-based organization	1998/99	
	Cotton	Improve incentives and efficiency	Divest government holdings in cotton marketing organization	1999/2000	World Bank
	Tea		Divest government holding in tea marketing organization	1997/98	
	Agricultural research and rural infrastructure	Improve incentives and efficiency	Provide adequate budgetary provisions for agricultural research and rural roads	Continuous	World Bank
	Land tenure	Facilitate acquisition and more efficient utilization of land	Present to Parliament a satisfactory Land Law based on popular participation	1997/98	
B.	Environment	Build capacity for sustainable management of natural resources	Implement the National Environment Bill and proceed with follow-up on National Environmental Action Plan (NEAP)	1997/98	World Bank
C.	Infrastructure				
	Transport	Improve maintenance and rehabilitation of main roads	Increase government funding for road rehabilitation by 240 percent from 1996/97 level	1999/2000	World Bank
		Improve the accessibility of rural areas	Increase feeder road investment and strengthen planning at district level	1997/98–1999/2000	World Bank
			Develop a prioritized feeder and urban roads investment plan	1997/98	World Bank

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
	Increase commercial orientation of Uganda Railways Corporation (URC)	Undertake independent financial audit of URC	1997/98	World Bank
Power	Improve supply of power by expanding power generation and distribution capacity and improving efficiency of the power sector	Cabinet approval of strategic plan for the power sector	October 1997	World Bank
		Electricity Reform Act submitted to Parliament	January 1998	World Bank/NURAD
		Issue invitation to bid for sale of the Uganda Electricity Board's distribution and commercial services	July 1998	World Bank
		Put in place legal framework to promote private participation in the provision of power and remove regulatory responsibility from UEB (enact necessary amendment to the Electricity Act of 1964)	December 1997	World Bank
		Enhance financial viability of UEB by:		World Bank
		a. reducing accounts receivable to: 4 months of sales 3 months of sales	 June 1998 June 1999	
		b. reducing staff to 2300	June 1998	
		c. divest vehicle maintenance facilities and pole treatment plant	March 1998	
		d. Contract out security and construction services	March 1998	
Post and Telecommunications	Increase private sector participation in service delivery through liberalization	Award license to second national telecommunications operator	March 1998	
		Sell up to 51 percent of Uganda Telecommunications Limited (UTL) to core investor with management control	Offer: December 1997 Final sale: March 1998	

Table 1. Uganda: Policy Matrix, 1997/98–1999/2000

Policy Area	Objectives and Targets	Strategies and Measures	Implementation	TA Requirements
Water	Improve provision of safe water and sanitation to urban and rural populations	Refine and adapt policies and guidelines for improved water supply and sanitation service delivery in rural areas and towns	1997/98	
		Allow NWSC to make tariff changes as needed to cover marginal costs	1997/98–1999/2000	
6. Long-Term Issues				
A. Education	Attainment of goal of Universal Primary Education	Develop details of operational strategy to attain objective of UPE, while increasing quality	1997/98	World Bank
		Adopt a strategy and timetable to rationalize teaching staff consistent with 1:55 teacher/ student ratio	1997/98	
		Monitor enrollment and retention rates and gender ratios in primary schools	1997/98–1999/2000	
		Increase financing for primary education	Continuous	
	Improve resource management	Implement financial management system for school districts to increase transparency and accountability	1998/99	World Bank
B. Health	Improve health indicators	Develop a health plan covering the period 1997/88–2001/02. Update the White Paper on Health Policy	1997/98	
		Develop regular and systematic monitoring of life expectancy, infant and maternal mortality rates	1997/98	
	Improve nutritional situation	Implement program of locally based interventions supported by Nutrition and Early Childhood Development Project	1997/98	World Bank

Table 2. Uganda: Selected Economic and Financial Indicators, 1993/94–1999/2000

	1993/94	1994/95	1995/96	1996/97		1997/98	1998/99	1999/2000
			Prov.	Prog.	Prov.		Proj.	
	(Annual percentage changes, unless otherwise specified)							
National income and prices 1/								
GDP at constant factor cost	5.3	10.5	8.1	7.0	5.0	7.5	7.0	7.0
GDP deflator	6.6	9.2	6.1	5.0	6.6	6.3	5.0	5.0
Consumer prices								
End-of-period	16.1	3.4	5.4	5.0	10.4	5.0	5.0	5.0
Annual average	6.5	6.1	7.5	5.0	7.8	5.6	5.0	5.0
External sector (in U.S. dollars)								
Exports, f.o.b.	61.6	134.5	-0.8	-10.6	13.3	-3.9	7.4	9.5
Imports, c.i.f.	28.5	61.6	12.2	2.0	2.6	9.4	5.9	8.0
Terms of trade (deterioration -)	30.5	68.3	-29.0	-10.8	-16.9	4.8	-0.8	0.1
Average exchange rate (USh/US$)	1,064	933	1,012	1,059	1,058	...	...	...
Nominal effective exchange rate								
(end-of-period) (depreciation -)	40.4	-6.1	-0.8	...	1.5	...	...	...
Real effective exchange rate								
(end-of-period) (depreciation -)	31.6	-7.3	0.1	...	9.5	...	...	...
Government budget								
Total revenue and grants	9.4	18.9	13.0	22.0	17.9	10.2	13.5	16.7
Revenue	29.3	40.7	20.5	23.6	19.8	11.0	18.5	21.7
Expenditure and net lending	13.7	13.8	6.8	13.4	15.6	8.1	12.7	16.2
Money and credit								
Net domestic assets 2/ 3/	-6.1	-3.4	8.7	-11.9	-12.0	5.2	2.2	1.5
Total domestic credit 2/	-2.7	-12.3	21.2	-11.9	2.7	5.2	2.2	1.5
Government credit 2/	-17.4	-23.8	6.1	-21.0	0.0	-7.9	-11.7	-13.7
Private sector 2/	14.7	11.4	15.2	9.2	2.6	13.2	13.9	15.2
Money and quasi-money 4/	33.3	25.3	20.8	15.0	15.8	16.0	12.5	12.5
Velocity (GDP/M2) 4/	10.1	9.7	9.3	8.9	8.9	8.8	8.8	8.8
Interest rate (annual rate on one-year time deposits)	11.0	8.0	8.9	...	11.4	...	...	...
	(In percent of GDP at factor cost)							
National income accounts 5/								
Gross domestic investment	15.8	16.8	19.2	20.5	20.5	21.8	22.4	23.1
Gross national savings (excluding grants)	8.9	8.4	12.3	13.3	14.4	14.7	16.1	17.3
External sector								
Current account balance								
(including official grants) 6/	-0.9	-2.7	-2.0	-1.7	-1.0	-2.2	-2.5	-2.3
(excluding official grants) 6/	-6.9	-8.4	-6.9	-7.2	-6.1	-7.0	-6.3	-5.8
External debt (including Fund)	81.2	64.5	63.2	62.5	57.6	54.1	51.2	48.6
Government budget								
Revenue	8.9	10.4	10.9	12.3	11.7	11.4	12.0	13.0
Total expenditure and net lending	20.1	18.9	17.6	18.1	18.2	17.2	17.3	17.8
Government balance (excluding grants) 6/	-11.1	-8.5	-6.7	-5.8	-6.5	-5.8	-5.3	-4.8
Government balance (including grants) 6/	-4.1	-3.1	-2.1	-0.9	-1.8	-1.4	-1.3	-1.3
Net foreign financing 6/	6.0	5.2	3.8	4.3	3.3	3.4	3.3	3.0
Domestic bank financing 7/	-1.1	-1.9	-0.5	-2.1	-1.2	-0.8	-1.2	-1.4
Domestic nonbank financing	0.2	0.2	-0.1	0.0	0.5	-0.3	0.0	0.0
	(In percent of exports of goods and nonfactor services)							
Debt-service ratio 8/								
Including Fund obligations	53.7	23.5	21.8	22.2	18.0	20.6	19.6	15.8
Excluding Fund obligations	50.8	16.5	15.6	8.6	10.7	12.7	12.5	10.1
	(In millions of U.S. dollars)							
Overall balance of payments	106.4	117.3	-10.3	155.9	101.3	44.2	19.1	37.8
External payments arrears (end of period)	222.8	233.2	246.1	0.0	316.2	0.0	0.0	0.0
Foreign exchange reserves	219.3	388.2	479.7	644.8	627.6	693.6	759.6	840.6
Gross foreign exchange reserves (in months of imports of goods and nonfactor services)	3.1	3.4	3.6	4.7	4.6	4.6	4.8	4.9

Sources: Ugandan authorities; and Fund staff estimates and projections.

1/ The national accounts series were revised in May 1997.
2/ Change as a percent of initial period stock of money plus quasi-money.
3/ Change in net domestic assets for 1997/98 through 1999/2000 is calculated using constant end-June 1997 exchange rate.
4/ As a simplifying assumption, velocity is assumed to be unchanged for the final two years.
5/ Actual investment and savings ratios are based on revised expenditure estimates.
6/ Using an improved methodology for reporting project financing, the authorities have revised the series and projections for project inflows and imports. Data up to 1993/94 are based on the old series. For 1994/95 onward, the new series are used.
7/ Includes sterilized coffee tax receipts equivalent to 0.3 percent of GDP for 1994/95. The figure is estimated at 0.2 percent of GDP in 1995/96.
8/ The debt-service ratio incorporates effects of the February 1995 Paris Club stock-of-debt operation on Naples terms and assumes rescheduling with non-Paris Club bilateral and commercial creditors on comparable terms.

Table 3. Uganda: Selected Demographic and Social Indicators

Indicator	Unit of measure	Latest single year 1970–75	Latest single year 1980–85	Most recent estimate 1989–94	Sub-Saharan Africa
Population					
Total	In thousands	11,228	14,134	18,592	571,902
Annual growth rate	In percent	2.6	2	3.1	2.8
Urban population	In percent of total	8.3	9.9	12.2	30.6
Annual growth rate	In percent	3.3	4.2	5.4	4.9
Life expectancy	Years	51	48	42	52
Labor force					
Total	In thousands	5,951	7,915	10,226	251,637
Employment in agriculture	In percent of total	89	86	85	65
Education					
Pupil to teacher ratios					
Primary school	Pupils per teacher	34	36	...	40
Secondary school	Pupils per teacher	23	23	...	...
Adult illiteracy rate	In percent of population ages 15 and older	...	57	38	53
Female	In percent of population ages 15 and older	...	71	50	54
Health and nutrition					
Population per physician	Persons	9,302	22,679	22,987	
Population per hospital bed	Persons	607	661	1,091	1,316
Infant mortality	Per thousand live births	104	116	122	92
Maternal mortality	Per 100,000 live births	...	300	550	...
Immunization					
Measles	Percentage, ages 0–5	...	17	74	51.4
DPT	Percentage, ages 0–5	...	14	77	53.5

Source: World Bank.

Table 4. Uganda: External Financing Requirements, 1997/98–1999/2000
(In millions of U.S. dollars)

	1997/98	1998/99 Proj.	1999/2000	1997/98- 1999/2000 Total
Total financing requirements	-1,037.4	-709.1	-712.3	-2,458.8
Current account 1/	-474.6	-479.3	-493.9	-1,447.9
Amortization (public sector)	-87.1	-94.3	-81.0	-262.4
Other capital (net)	-32.7	-10.0	-5.0	-47.7
Change in gross official reserves of the BOU (increase = -)	-66.0	-66.0	-81.0	-213.0
Change in arrears (decrease = -)	-316.1	0.0	0.0	-316.1
IMF repayments	-60.8	-59.4	-51.4	-171.7
Sources of financing	1,037.4	709.1	712.3	2,458.8
Official grants	329.1	288.2	296.9	914.3
Import support	124.9	80.0	70.0	274.9
Project support	204.2	208.2	226.9	639.4
Official loans	309.6	314.5	320.8	944.9
Import support	60.0	60.0	60.0	180.0
Of which IDA	45.0	40.0	60.0	145.0
Project support	249.6	254.5	260.8	764.9
Of which IDA	143.0	194.0	209.0	546.0
IMF disbursements	55.8	46.5	37.2	139.4
Of which				
Expected new commitments	240.4	296.0	378.7	915.1
Official grants	109.0	103.1	126.7	338.8
Import support	58.0	51.0	70.0	179.0
Project support	51.0	52.1	56.7	159.8
Official loans	75.6	146.5	214.8	436.9
Import support	0.0	10.0	20.0	30.0
Project support	75.6	136.5	194.8	406.9
IMF disbursements	55.8	46.5	37.2	139.4
Exceptional financing	343.0	59.9	57.4	460.3
Paris Club	0.0	0.0	0.0	0.0
Other 2/	343.0	59.9	57.4	460.3
Financing gap	0.0	0.0	0.0	0.0

Sources: Ugandan authorities; and Fund staff projections.

1/ Excludes official grants.
2/ Beginning in 1998/99 includes projected estimates of total annual assistance under the HIPC Initiative.