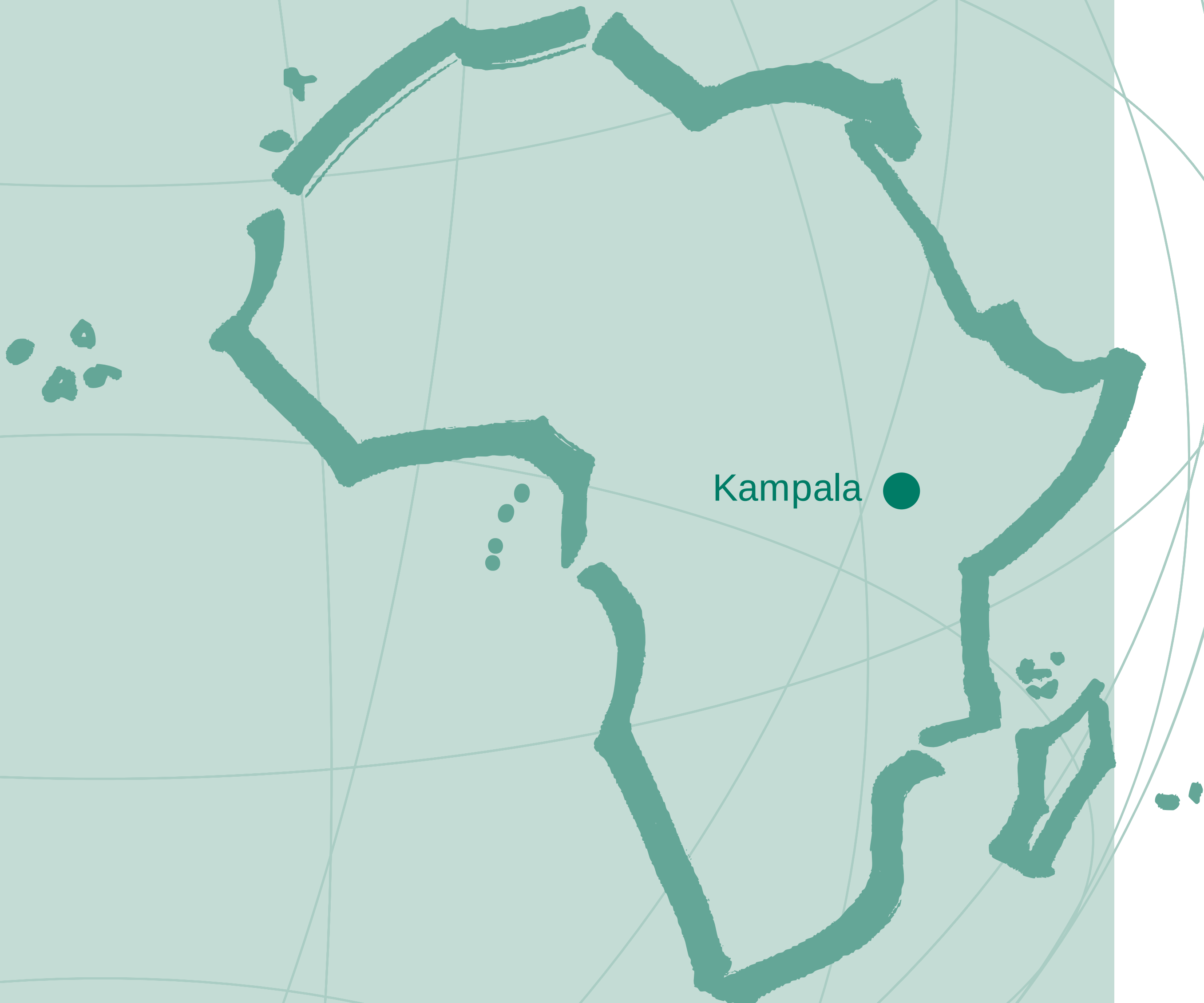
Uganda



key figures

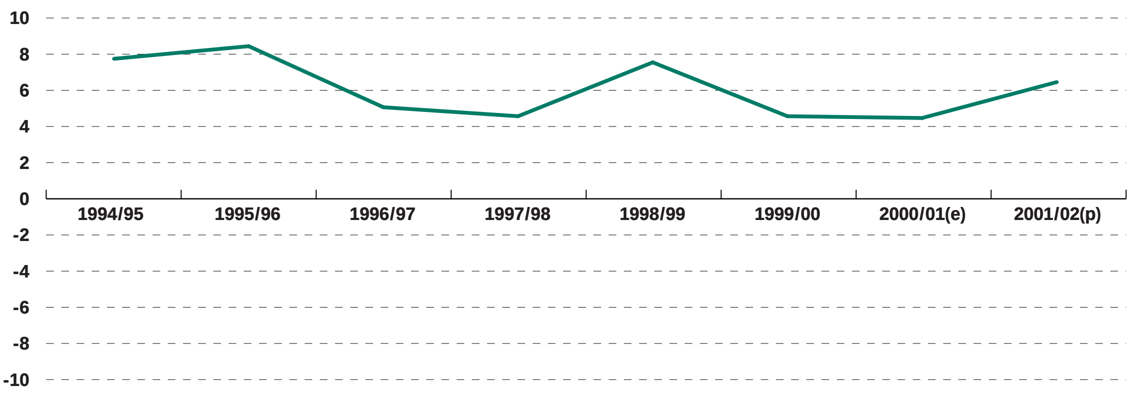
- Land area, thousands of km²: 200
- Population, thousands (2000): 23 300
- GDP per capita, $ (2000): 266
- Life expectancy (1995-2000): 41.9
- Illiteracy rate (2001): 31.9

Uganda

OVER THE PAST DECADE UGANDA has achieved a successful post-civil war rehabilitation and made substantial progress in macroeconomic stabilisation. Prudent fiscal and monetary policies yielded low inflation, low cost of borrowing and relative stability in foreign exchanges; economic growth responded strongly. However, owing to external shocks the country's strong economic growth moderated to 4.6 per cent in 1999/2000, and is expected to decline slightly to 4.5 per cent in 2000/01 before rebounding to 6.5 per cent in 2001/02. The recent macroeconomic achievements translated into poverty alleviation and other social gains, with Uganda achieving the unique success in Africa in reducing the spread of HIV/AIDS. However, many areas of poverty alleviation and social service delivery still require improvements. In addition, although Uganda continues to make progress in its structural transformation, the pace of progress is slow in areas such as privatisation. Also, though democracy appears to be functioning in the country, Uganda needs to make progress in strengthening its approaches to governance problems, including corruption which is reported as one of the highest in Africa.

Uganda has achieved a unique success in Africa in reducing the spread of HIV/AIDS

Figure 1 - Real GDP Growth



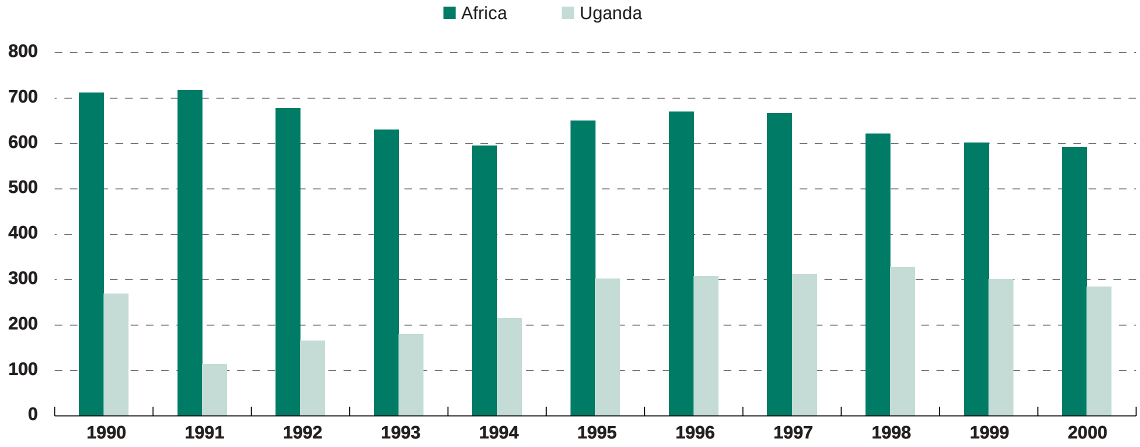
Source: Authors' estimates based on IMF and domestic authorities' data.

Recent Economic Developments

The Ugandan economy continued its robust growth though at a reduced rate in fiscal 1999/2000 with real GDP growth recording 4.6 per cent compared with 7.6 per cent in 1998/99. The slowdown in economic activity in 1999/2000 was largely attributable to the fall in the terms of trade, as the loss in income from the increase in oil prices and the decline in coffee prices exceeded the equivalent of 2 per cent of GDP. The continuation of the terms of trade deterioration is expected to lead to a fall in real GDP growth to 4.5 per cent in 2000/01 before growth rebounds to 6.5 per cent in 2001/02.

Industry and services have led the growth of the Ugandan economy over the past decade, although owing to slow structural transformation the country's comparative advantage remains in agriculture. In 1999/2000 the major sectors that contributed to growth were services, agriculture, construction and mining. The performance of the agricultural sector generally improved in 1999/2000 with a growth rate of 4.9 per cent compared with 4.2 per cent in 1998/99. All the

Figure 2 - GDP Per Capita in Uganda and in Africa (current $)



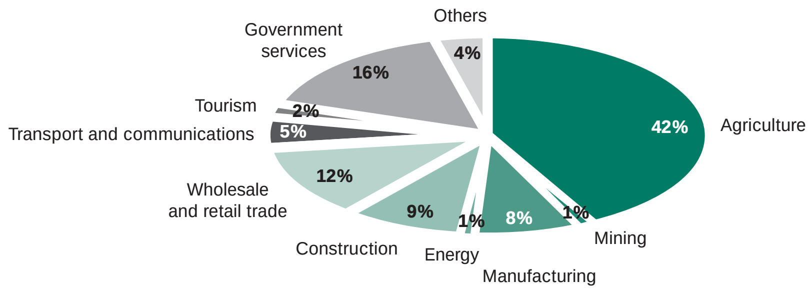
Source: Authors' estimates based on IMF and domestic authorities' data.

sub-sectors, except the cash crop sub-sector, experienced significant positive growth. Food crop production (plantain, sweet potatoes, maize, cassava, etc.) increased in 1999/2000 as rainfall was largely normal compared with the drought in the previous year. The good run in food production is expected to continue in 2000/01 as agro-meteorological data have indicated normal rains in the first quarter of 2001. Cash crop production fell in 1999/2000 owing to poor performance of coffee and tobacco. Coffee deliveries, which are a proxy for production, have declined since 1997/98. Deliveries have dropped from 222 000 tonnes in 1997/98 to 205 000 tonnes in 1998/99, with a further fall to 170 800 tonnes in 1999/2000. The prolonged drought and, to some extent, coffee wilt disease have negatively impacted on coffee deliveries. Tobacco purchases also declined from 23 500 tonnes in 1998/99 to 21 500 tonnes in 1999/2000. The prolonged drought up to 1999 in the West Nile area that affected production of the flue-cured Virginia crop is largely responsible for the lower yields. Similarly, cotton output fell from 117 000 bales in 1998/99 to 100 000 bales in 1999/2000 owing largely to a fall in world prices, which was a disincentive to cotton planting despite the availability of production inputs (seeds and chemicals). On the other hand, tea production has continued to improve slightly since 1998/99, with production of green leaf up in 1999/2000 to 139 500 tonnes compared with 136 300 tonnes in 1998/99. Prospects for tea production are higher given the Uganda tea industry's planting rehabilitation and productivity improvements.

The industrial sector achieved a growth rate of about 6 per cent in 1999/2000 which, though higher than the rate in 1998/99, constituted a decline compared with growth levels in 1997/98. The industrial sector in 1999/2000 was affected by the worsening terms of trade. With Ugandan industry catering mainly for the local market but relying heavily on imported inputs, the foreign exchange squeeze resulting from the terms of trade shock affected production. The manufacturing sub-sector suffered as its growth rate fell to 6 per cent in 1999/2000 compared with 9.5 per cent in 1998/99. However, growth in construction and mining continued to be robust with a growth rate of 8.5 per cent in 1999/2000. The growth was derived mainly from expansion in public road construction and private building construction. At the same time, expansion in construction created demand for sand and clay thereby expanding the mining and quarrying sector.

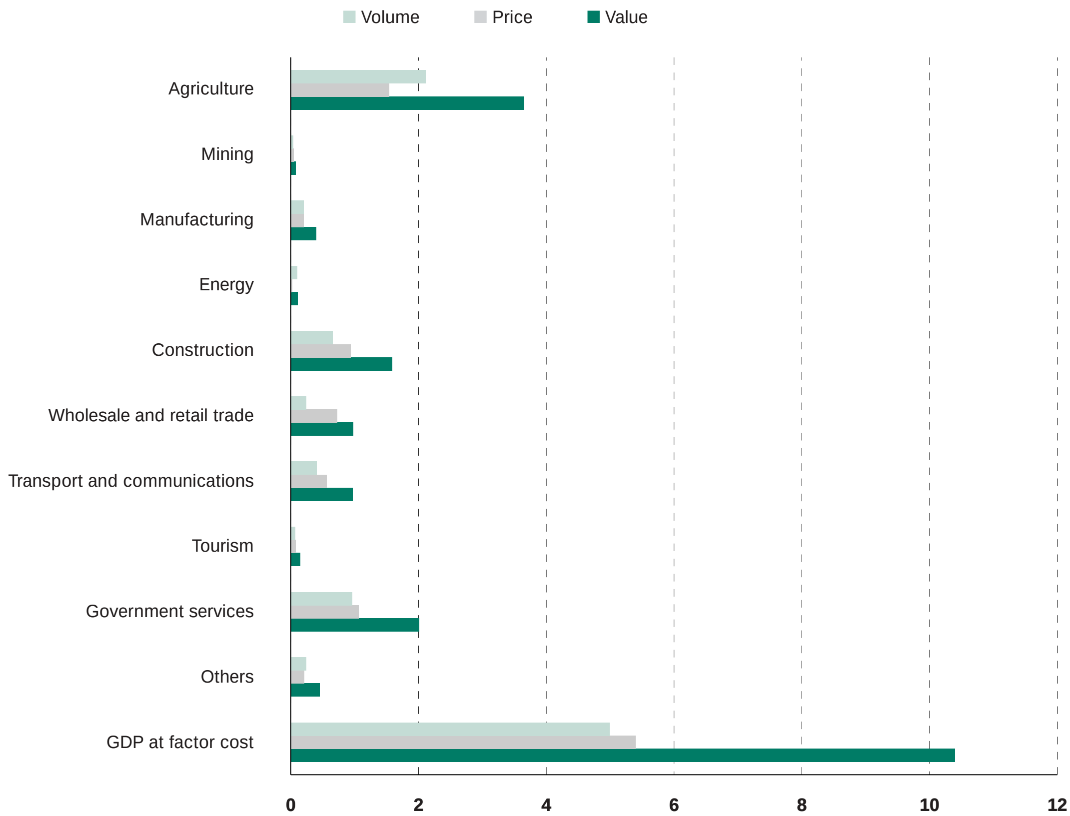
Growth in the services sector in 1999/2000 was accounted for mainly by the expansion in telecommunication services, although road transport services, commerce and trade services and community services also enjoyed moderate growth. Telecommunication services expanded by 35 per cent in 1999/2000 as a result of the continuous expansion in

Figure 3 - GDP by Sector in 2000/2001



Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth, 2000/2001



Source: Authors' estimates based on IMF data.

mobile, cellular, internet and fixed telephone services since 1996.

The direction of Uganda's growth performance appeared to depend on what happened to consumers, especially private consumers, as the growth performance has been characterised by the strong consumption of the private sector. However, in 1999/2000 total consumption came in at the previous year's level with private consumption falling from its highs. This was due to the impact of the external shock that reduced private incomes and thus reduced domestic consumption. The high share of consumption in total income is expected to continue in 2000/01 and 2001/02

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Gross capital formation	**17.1**	**15.5**	**17.2**	**22.6**	**25.1**	**26.2**
Public	6.1	5.2	5.5	10.0	11.5	12.0
Private	11.1	10.3	11.8	12.6	13.6	14.2
Total consumption	**95.4**	**102.9**	**100.4**	**99.3**	**99.4**	**97.5**
Public	10.6	10.3	11.1	12.6	12.9	12.8
Private	84.8	92.6	89.2	86.7	86.6	84.7
External demand	**-12.5**	**-18.4**	**-17.6**	**-21.9**	**-24.5**	**-23.7**
Exports	11.7	9.4	11.4	10.1	8.5	9.1
Imports	-24.2	-27.8	-29.0	-32.0	-33.0	-32.8

Source: Authors' estimates and predictions based on domestic authorities' data.

as private consumption remains at high levels. At the same time Uganda is expected to maintain an even higher level of domestic investment in 2000/01 and 2001/02 owing to higher levels of foreign savings financing domestic investment.

Macroeconomic Policy

Fiscal and Monetary Policies

The implementation of the budget in 2000 posed major difficulties for the Ugandan government. The external shock that constrained real GDP growth contributed to poor domestic revenue performance. However, higher than anticipated levels of external grants, as donors moved to support Uganda's preparations for general and presidential elections, more than offset the shortfall in domestic revenue. Under the government's fiscal and monetary programme, any excess or shortfall of donor budget support leads to an increase/reduction in government savings, rather than a change in expenditure. Thus, the larger than expected level of resources arising from higher grants could not be used to increase spending because this would have widened the domestic fiscal deficit and reduced incentives for domestic resource mobilisation.

The overall tax revenue performance was poorer in 1999/2000 as it stabilised at the 1998/99 level of about 10.5 per cent of GDP. There were poor collections in corporate tax, excisable goods and fuel import duty, arising partly from the terms of trade shock. The poor

Table 2 - Public Finances[a] (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total Revenue and grants[b]	**14.3**	**15.5**	**15.6**	**17.2**	**19.6**	**18.3**
Taxes	9.1	9.8	10.6	10.4	10.5	10.1
Grants	4.4	5.1	4.7	6.4	8.8	7.9
Total expenditure and net lending[b]	**16.8**	**15.9**	**17.3**	**19.9**		
Current expenditure	9.2	9.3	9.9	11.2		
Excluding interest	*8.2*	*8.3*	*9.1*	*10.4*	*10.6*	*10.6*
Wages and salaries	2.5	3.3	3.9	4.0	4.3	4.5
Interest on public debt	1.0	1.0	0.8	0.8		
Capital expenditure	7.4	6.6	7.3	8.7	10.0	10.4
Primary balance	**-1.6**	**0.5**	**-0.9**	**-2.0**	**-0.2**	**-2.7**
Overall balance	**-2.5**	**-0.4**	**-1.6**	**-2.8**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

revenue performance persisted into 2000/01 as the negative terms of trade shock extended into the first half of 2001. Low receipts have been recorded from excise duty on locally produced goods owing to less than anticipated domestic demand, and on petroleum products owing to increases in international prices. Consequently, revenue projections for 2000/01 are being revised downwards.

The government had to restrain public expenditure to target levels in order to maintain its demand management policies during 1999/2000. Total government expenditure increased to about 20 per cent of GDP in 1999/2000 compared with 17.3 per cent of GDP in 1998/99. However, the higher expenditure levels in 1999/2000 were closer to the budget targets as the government implemented stricter cash budget rules, matching expenditures strictly with available resources. The expenditure restraints notwithstanding, the budget outturns represented deterioration in the fiscal performance as the primary balance moved from a deficit of 0.9 per cent of GDP in 1998/99 to a deficit of 2 per cent of GDP in 1999/2000. The primary deficit is expected to subside to 0.2 per cent of GDP in 2000/01 as donors continue to increase grants to Uganda after the successful completion of the democratic elections. The primary deficit is expected to widen to 2.7 per cent of GDP in 2001/02 following total revenue shortfalls as grant disbursements stabilise and total expenditure continues its moderate expansion.

Within the context of its broad monetary policy objective of containing money supply to levels consistent with price stability, monetary policy management in 2000 faced three challenges. First, preventing excess liquidity as a result of maturing promissory notes (PNs) that had been issued by the Bank of Uganda (BOU) to Ugandan Commercial Bank, Standard Chartered and Centenary Rural Development Bank with respect to their acquiring deposit liabilities of banks closed in 1999. Second, mopping up liquidity arising from government spending of donor aid. Third, differentiating the pressures on the exchange rate arising from the terms of trade shock from speculative activities in the foreign exchange market. Monetary policy was conducted mainly by varying the net issuance of Treasury bills and adjusting the policy margins on the rediscount rate and the bank rate. The BOU also introduced Repurchase Agreements (REPOs) in August 2000 as a flexible fine-tuning instrument. In addition, the base for the computation of commercial banks' reserve requirement was widened in September 2000, to include foreign currency deposits at the same ratio as local shilling deposits. Furthermore, from December 2000, reserve requirements on all deposits were adjusted upwards by one percentage point to 9 per cent and 10 per cent on time/savings and demand deposits respectively.

Following these developments, broad money (M3), which comprises currency in circulation plus bank deposits including foreign exchange accounts, grew by 16.1 per cent between June 1999 and June 2000, and by 13.6 per cent between June 2000 and March 2001. A breakdown of M3 into its components showed that the growth came mainly from foreign currency deposits, which grew by 18 per cent, and currency in circulation, which grew by 15 per cent. The higher growth in foreign currency deposits indicated a tendency towards the dollarisation of the economy. The BOU appeared to get around this problem with the implementation of uniform cash reserve ratio on both domestic and foreign deposit liabilities. This appeared to reduce the dollarisation problem as the foreign deposit/M3 ratio declined from about 27 per cent in September 2000 to 24 per cent in March 2001.

Consumer price inflation, which is primarily determined by trends in food prices, has remained relatively low in Uganda. The years of drought with drought-related declines in food production as in 1997 saw a rise in the rate of inflation, and as food production recovered, as in 1998, food prices fell and inflation also declined. With the drought in 1999 and its effect on food crops, the annual rate of inflation rose to 5.3 per cent. During 2000, inflation remained stable at 4.2 per cent in the first quarter, but rose to 6.1 per cent in November before falling back to 4.2 per cent in December. The depreciation of the exchange rate and the rise in oil prices were among the reasons for the building up of inflationary pressures during the year. The build-up of inflation is expected to continue with the annual average rate rising to 4.1 per cent in 2000/01 and further to 4.5 per cent in 2001/02, reflecting the strong demand conditions in the economy.

The Bank of Uganda emphasis on T-bills in meeting its monetary policy challenges in 2000 led to the rate of interest on the 91-day T-bills rising from 16.8 per cent at the beginning of July 2000 to a peak of 25.8 per cent by mid-January, 2001. The increase in T-bill rates reflected the sharp rise in the volume of T-bills issued and held by the commercial banks. The interest rates on the T-bills have since declined to 9.96 per cent in April 2001, as more aggressive sales of foreign currency by the BOU to the market enabled the BOU to place less emphasis on T-bills to control liquidity. In response to the declining rates on the T-bills, commercial banks have adjusted their prime lending rates downwards.

The Ugandan shilling is market-determined with the monetary authorities intervening as necessary to maintain stability in the foreign exchange market. The exchange rate of the shilling has followed a downward trend over the past five years. However, what was desirable in view of the need to maintain Uganda's export competitiveness was the depreciation of the real effective exchange rate of the shilling. During 1999, the nominal effective exchange rate (NEER) of the shilling depreciated by 16.4 per cent against the US dollar, as the dollar strengthened against world currencies generally. The real effective exchange rate (REER) depreciated by 13.4 per cent during the year. The shilling continued its slide in 2000 and into 2001, attributed largely to the deterioration in the terms of trade. The NEER and the REER are estimated to have depreciated by 7 per cent and 3.6 per cent respectively between June 2000 and March 2001.

The BOU's cautious intervention in the inter-bank foreign exchange market kept the foreign exchange market from experiencing major turbulence. Between June 2000 and March 2001, the BOU sold about $140 million to keep stability in the foreign exchange market. Stability in the market was also maintained by moral persuasion from the BOU with caution, followed by actions to convince commercial banks, *forex bureaux* and other agents that the shilling is not a one-way bet, and that those banks which speculate will suffer the consequences as the BOU is not a buyer of last resort. The BOU also made efforts to enhance transparency of transactions on the IFEM, by directing all authorised dealers in the market to connect to the Reuters system with effect from 1 July 2001. Indicative quotes will now be posted on Reuters as opposed to the current system of receiving quotations via the telephone. Intervention operations of the BOU will also be posted to Reuters.

External Position

Uganda continues to revise its trade regime in its annual budgets towards the liberalisation of its external trade. The maximum duty rate was reduced from 20 per cent to 15 per cent in 1998. In 1999, import bans on beer, soft drinks, and car batteries were lifted. In 2000, the government gave indications to eliminating the surcharge on beer, cigarettes and other tobacco products. Uganda has an outstanding issue in trade policy involving the elimination of the differential use of excise taxes for imports and domestic goods in the context of COMESA and the East African Community (EAC). On this issue, the government indicated in 2000 that existing discriminatory excises on selected imports will be phased out within the framework for trade liberalisation to be undertaken in the context of the EAC. These taxes were duly eliminated upon the approval of the 2001/02 budget in July 2001. The government has already removed the special protection accorded to textiles.

The external sector of Uganda has continued since 1999/2000 to operate under pressure owing to the deteriorating terms of trade and poor export performance. The terms of trade shock led to a widening of the trade deficit. Although the depreciation of the exchange rate dampened import demand somewhat, this was more than offset by a reduction in export earnings. Coffee exports, the main export earner, are estimated to contribute only about 27 per cent of total exports in 2000, down from 43 per cent in 1999. This reduction was due to a 4 per cent fall in volumes exported and, more importantly, a 37 per cent fall in international coffee prices compared with the previous year. The value of non-coffee exports — hides and

Table 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Trade balance	-8.6	-14.2	-13.2	-17.3	-18.4	-17.8
Exports of goods (f.o.b.)	10.5	6.8	8.6	7.1	6.4	6.9
Imports of goods (f.o.b.)	-19.1	-21.0	-21.8	-24.4	-24.9	-24.7
Services balance	-4.0	-4.2	-4.4	-4.5		
Factor income	-1.0	-0.1	-0.2	-0.2		
Current transfers	7.5	13.2	10.7	14.0		
Current account balance	**-6.1**	**-5.2**	**-7.2**	**-8.1**		

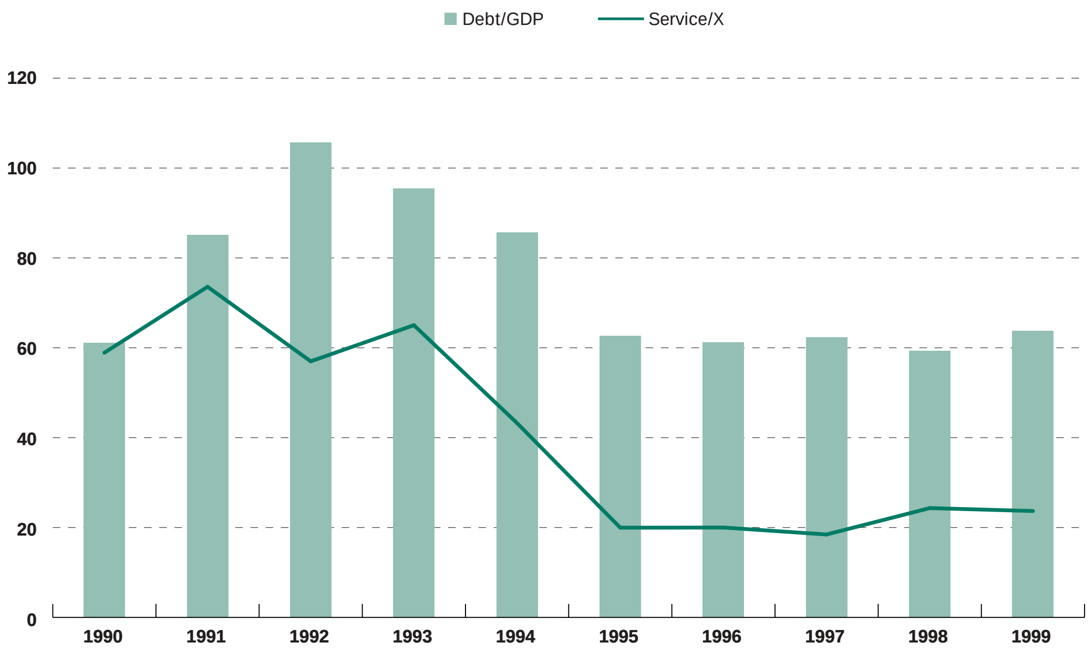
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

skins, fish and electricity — on the other hand increased by 18 per cent. Imports of goods are estimated to have increased by 8.6 per cent in 2000, mainly owing to the increased oil bill. Despite the 28 per cent increase in official transfers the current account deficit widened from 7.2 per cent of GDP in 1998/99 to 8.1 per cent in 1999/2000. With the expected continuation of the terms of trade deterioration, export performance is expected to remain poor in 2000/01 and 2001/02. Thus, the moderate increase in imports in both years will leave the trade deficit increasing on the level obtained in 1999/2000.

The external debt stock of Uganda was estimated at $4.08 billion at end-1999, representing 63.7 per cent of GNP of the year. The debt structure indicates that multilateral creditors accounted for about 72 per cent of the total debt; bilateral creditors accounted for 26 per cent; and private creditors accounted for the remaining 2 per cent.

Uganda's current debt situation is dominated by developments with the HIPC initiative. Uganda was the first country to benefit from the HIPC debt relief initiative in 1998 when it was granted debt relief of

Figure 5 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

$347 million in NPV terms (equivalent to 650 million in nominal terms), to be spread over a period of 30 years. Uganda was also the first country to qualify for debt relief under the Enhanced HIPC Initiative in May 2000. Uganda will thus receive $656 million in NPV terms over a period of 20 years (approximately $1.3 billion in nominal terms) in addition to the $347 million under the original HIPC.

Uganda's debt stock/GDP ratio and its debt service payments have declined significantly owing to HIPC debt relief. Uganda's HIPC relief has more than doubled over the last three years from $45 million in 1998, the first year in which Uganda was eligible for HIPC, to $91 million in 2000. As a result, Uganda's debt service ratio, once relief is taken into account, is less than half what it would be without relief. In addition to the HIPC debt relief, Uganda also became eligible for fast-disbursing resources under the Supplementary Financing Mechanism (SFM), which aims at helping the country to service the non-concessional debts owed to the African Development Bank Group. In parallel with the HIPC debt relief and SFM, Uganda has continued to implement a debt management strategy aimed at making the external debt sustainable. Under the strategy, Uganda contracts only concessional loans at IDA terms where it is unable to secure grants to finance development expenditure.

The outstanding debt relief issue for Uganda is its inability to reach agreement with most of its non-Paris Club creditors. Reflecting the lack of progress, the government postponed payments on outstanding maturities due to India, Libya and Nigeria. Among the non-Paris Club creditors, Uganda has, however, reached agreement with China. Also, Uganda has yet to reach agreement with two multilateral creditors, the OPEC Fund and the Islamic Development Bank, regarding the modalities of their assistance under the HIPC initiative.

Structural Issues

Uganda continues to implement reforms to liberalise and de-regulate the economy in order to attract investments into areas with high growth potential in which Uganda could have comparative advantage. In its privatisation programme, which slated 120 enterprises for privatisation from 1996, by end-2000 86 of the enterprises had been sold. Recent developments in the programme include the government's decision in April 2000 to move directly to privatise Uganda Railway Corporation via long-term concessions. This strategy eliminated the original proposal of putting in place a five-year operating lease before the concessions. The government has abolished the monopoly of Entebbe Handling Services in air cargo handling and has invited interested operators to apply for consideration. In June 2000, 51 per cent shares in Uganda Telecom Limited (UTL) were sold for $33.5 million to a consortium including Detecon, Telecel and Orascom. The buyers have taken over operations and have begun the rollover of cellular services. A third mobile phone operator, a subsidiary of UTL, began operations in January 2001. Also, the government proposed to privatise the generation and distribution assets of the Ugandan Electricity Board (UEB) through a long-term concession by end-2001. The UEB was restructured in March 2001 with the functions of electricity generation, transmission and distribution transferred to three companies respectively. The implementation of the privatisation programme suffered some setbacks. In response to allegations of lack of transparency and corruption, parliament temporarily suspended the programme in mid-August 1998 to permit investigation into specific divestiture cases. Also, the privatisation of the Ugandan Commercial Bank (UCB) unravelled owing to fraudulent behaviour on the part of the buyer, and BOU had to seize management control. In 2000, following the successful resolution under international arbitration, the government regained full control of UCB, and continued the process for re-privatisation. In October 2001, the Bank of Uganda awarded the winning bid to the Standard Bank Investment Corporation of South Africa. While there are still some issues to be settled, including opposition by some members of parliament, the sale is scheduled to be finalised be end-2001.

In the financial sector**,** the government has carried out several reforms including the re-capitalisation of BOU, which was provided with its own stock of tradable securities; and the restructuring of the Ugandan Development Bank (UDB) to enable it to provide long-term development finance. In addition, BOU has taken measures to strengthen its supervisory and regulatory role by increasing the number of on-site inspections, and strengthening off-site surveillance. The problem of insolvency in commercial banks has been addressed with the BOU enforcing a policy that requires banks failing to meet the capital adequacy ratio either to take remedial measures "leading to prompt recapitalisation" or face closure within a specified period of time. In this context, BOU closed the International Credit Bank in September 1998; the Greenland Bank in April 1999; and the Co-operative Bank in May 1999. The government announced in 2000 that problems had been encountered in the recovery of assets in the three banks liquidated, in part because the enforcement of the sale of mortgaged properties through the courts has moved slowly and because insider loans have been difficult to realise in the absence of collateral. These difficulties continued into 2001. In addition, liquidation costs have been very high.

Political and Social Context

Uganda has made progress in many areas of governance. Although gains in democracy in Uganda remain contested, at present the country's leaders are elected through adult suffrage. The government held a referendum on political parties during 2000 followed by presidential elections in March 2001 and parliamentary elections in June 2001. Amid claims of fraud, vote-rigging and intimidation of voters made by the opposition as well as by some foreign observers, President Yoweri Museveni was re-elected. Although the claims of fraud might dent Uganda's image as a democratic country, the re-election of President Museveni meant that political and economic policies would remain in line with those of recent years. With regard to stabilisation in the political process, there is the continual problem of insurgency in the North. Although the armed gangs have largely been controlled by government forces, greater vigilance is still required to prevent an armed rebellion that could threaten political stability.

In spite of the good intentions of the government in promoting accountability and transparency in public life, corruption remains a major social canker in Uganda. Many of the services that are most relevant for the poor (such as police and health care) are considered to be among the most corrupt, as are also other agencies in the judicial system, including the judicial and criminal courts. The 1998 National Integrity Survey found that 40 per cent of service users have to pay bribes to workers in key public services. Transparency International's latest index on corruption, which is based on the perception of businessmen, ranked Uganda 89 out of 91 countries. The average number of corruption-related complaints per month that the Inspector General of Government (IGG) receives rose from 143 in 1998 to 399 in the first half of 2000. In June 2000 the government published its strategy plan to fight corruption and build ethics and integrity in public office. However, the question remains as to how far the Plan can go given the current status quo in political and public life in Uganda.

Uganda has since 1992 conducted five nationally representative household surveys measuring living standards of the population. The results of these surveys indicate that economic growth in the 1990s has translated into increases in household consumption and a reduction in income poverty. Even during 1997-2000, when there was a slower pace of economic growth, the reduction in poverty appeared to continue. According to the household surveys' results, the proportion of the population living below the poverty line of $1 a day declined from 56 per cent in 1992 to 44 per cent in 1997, and then to 35 per cent in 2000 (a decline of 38 per cent since 1992). The 2000 survey indicates that while poverty has declined, inequality in Uganda has increased, especially after 1997. Consumption gains have been inequitably distributed across the population, with the richest decile having experienced the largest rise in living standards: it has seen its real consumption increase by 20 per cent since 1997, whereas consumption levels of the poorest decile has grown by only 8 per cent. In addition, regional inequality has widened, with the North and East of the country having the largest proportions of the poor. In particular, the poverty situation in the North has worsened since 1997, while poverty has declined in all other regions. Insecurity is the main reason behind the lack of progress in poverty alleviation in the North. The surveys also indicate that poverty in Uganda continues to be a rural phenomenon; the rural-urban gap has widened, with 96 per cent of the poor living in rural areas in 2000.

The government currently makes direct interventions towards poverty alleviation. These include most notably the Poverty Action Fund (PAF), financed by a combination of the HIPC debt relief savings, donor budget support and other government resources. The PAF resources have increased significantly from about Shs. 80 billion ($64 million) in 1998 to Shs. 167 billion ($114 million) in 1999 and to Shs. 330 billion ($189 million) in 2000. The resources are channelled to local government in the form of conditional grants to support key activities in the areas of rural roads, agricultural extension, primary healthcare, water and sanitation and primary education.

Uganda's Household Surveys indicate an improvement in the health status of the population between 1997 and 2000, across regions, urban and rural, male and female. The indicators of improvement are also suggested in child health. In pursuance of its Uganda National Minimum Health Care Package that concentrates on the control of communicable diseases, the government has started refurbishing the 6 000 outreach stations in the country and is drafting a plan for the revitalisation of the immunisation programmes. However, there is an acute shortage of qualified staff in the health sector. In 2000, only 40 per cent of health units had trained staff — lower than the government target of 55 per cent.

The government has continued the implementation of its HIV/AIDS control programme. The HIV sero-prevalence declined from 10 per cent to 8.3 per cent between 1996 and 2000. Infection rates from Sentinel Surveillance sites continued to show a decline as a result of behaviour change and the use of condoms. Uganda's achievement with AIDS awareness and prevention, unique in Africa, had been the result of government campaigns in which state officials and community elders openly discussed AIDS issues. In spite of the major achievement, AIDS remains a substantial threat to public health and constitutes a significant obstacle to rapid human capital accumulation. Surveillance data show that 10 per cent of the adult population (15-49 years) is HIV-infected. AIDS is responsible for up to 12 per cent of annual deaths and has become the leading cause of death among the 15-49 age group. One of the most visible and immediate impacts of the epidemic is the rapidly growing number of AIDS orphans. UNAIDS (2000) estimates that at end-1999, 1.7 million children (under 15 years) had lost their mother or both parents to AIDS. Areas that have proved to be problematic are making health care affordable to people living with AIDS and striking a balance between preventive and curative services.

The cornerstone of Uganda's education policy is universal primary education. Access to education by all income groups and gross enrolments have increased as a result of this policy. The net primary enrolment rate has improved from 83 per cent in 1998 to 94 per cent in 2000. Primary school completion rate, which stood at 40 per cent in 1998, had improved to 45 per cent in 2000. However, the quality of education seems to have suffered in the process. Several indicators of educational quality have not improved as expected. The average pupil-textbook ratio has not declined at the rate envisaged: at 6.7:1 in 2000, it was higher than the anticipated level of 6.0:1. Infrastructure in schools has improved, but the average pupil-classroom ratio of 125:1 is higher than the target level of 118:1. Also, though the average pupil-teacher ratio declined to 65:1 in 2000 from 68:1 in 1999, it was still higher than the target 58:1. There are two main reasons behind the poor performance in these areas; higher than anticipated gross primary enrolments and continued delays in teacher recruitment. The government is making efforts to improve quality by increasing the availability of textbooks, expanding school construction and hiring more teachers. To overcome partially the shortage of qualified teachers, the government has modified entry requirements to the teaching services to permit secondary school graduates to join. In addition, the procedures for newly recruited government employees accessing the payroll is being rationalised.