Institute of
Social Studies

FISCAL ADJUSTMENT AND GROWTH IN UGANDA

A Research Paper presented by

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(Uganda)

In Partial Fulfilment of the Requirements for Obtaining the Degree of

MASTER OF ARTS IN ECONOMICS OF DEVELOPMENT

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The Hague, December 1997

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ACKNOWLEDGEMENT

This research paper would not have been completed without the help and support from a number of individuals to whom I wish to register my appreciation. First and foremost, I wish to sincerely thank my first supervisor, Prof. Graham Pyatt for his valuable assistance and guidance which helped to conceptualise and write this paper. I also register my appreciation to my second supervisor, Dr. Peter de Valk for his very useful comments on the drafts of this paper. The entire ECD program students are also recognised for their moral and academic support. I also register my thanks to the ECD Program Administrator, Ms Annamaire Voorvelt for her administrative and friendly support. The entire ECD teaching staff is also thanked for the knowledge they imparted unto me throughout the first, second and third terms of my studies at the ISS.

I also wish to express my gratitude to my parents, relatives and friends back home in Uganda and friends here in The Netherlands for the moral support they gave me throughout my study period here in the Netherlands. Finally, I wish to express my heart-felt appreciation to Mr. Charles Kirambaire for his unwavering moral support and encouragement.

Cissy Ann Agaba,
ISS, The Hague,
The Netherlands,
November, 1997

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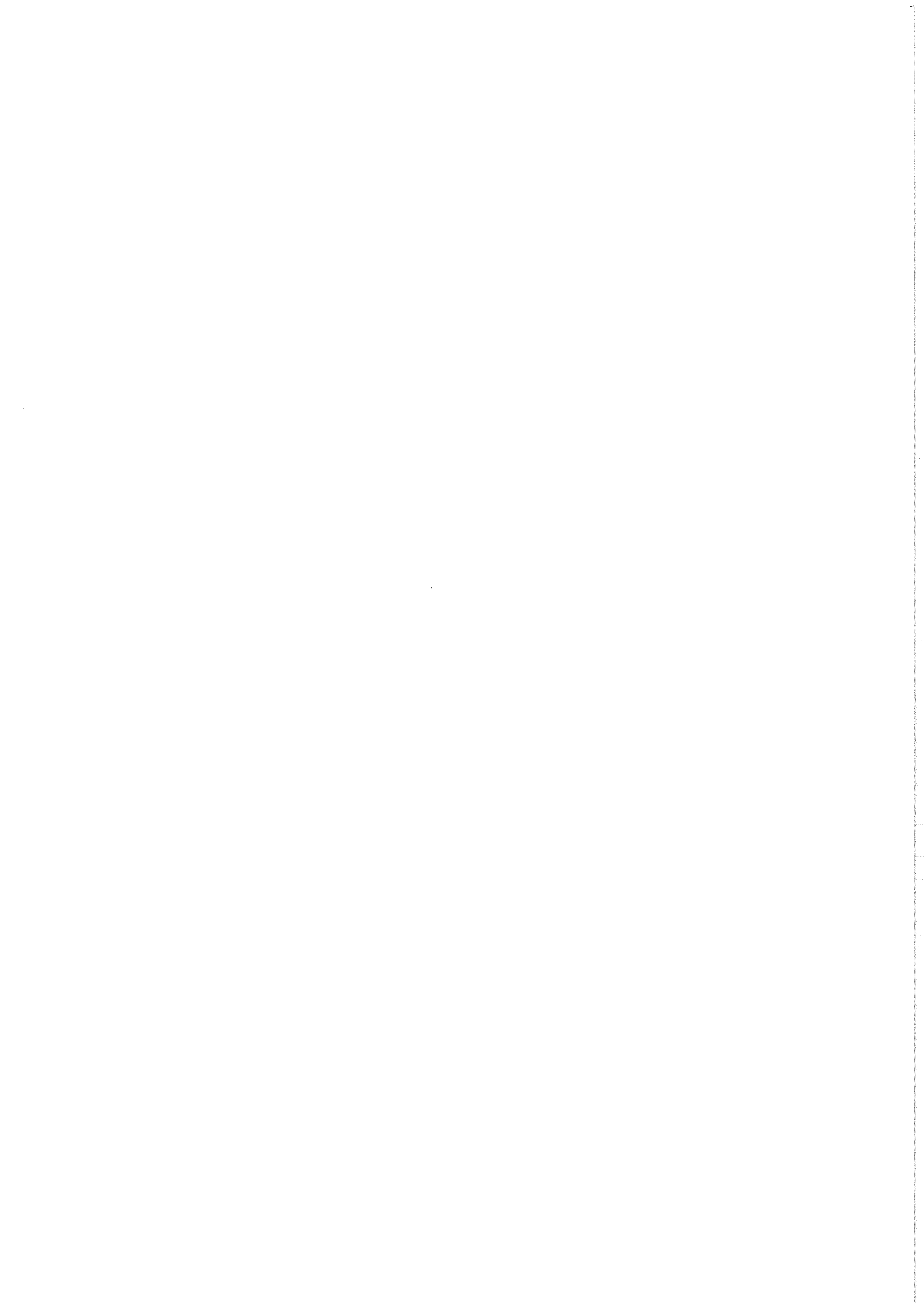


LIST OF ACRONYMS AND ABBREVIATIONS

BOU	Bank of Uganda
COMESA	Common Market for East and Southern Africa
CTL	Commercial Transactions Levy
DANIDA	Danish International Development Agency.
ECD	Economics of Development (M.A)
ERP	Economic Recovery Program
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product; also acronym for National Income
IMF	International Monetary Fund
ISS	Institute of Social Studies (The Hague, The Netherlands)
LISSA	Low Income Sub-Saharan Africa (n countries)
MFEP	Ministry of Finance and Economic Planning
OECD	Organisation for Economic Co-operation and Development.
PAPSCA	Program to Alleviate poverty and the Social Cost of Adjustment.
QRs	Quantitative Restriction(s)
SAF	Structural Adjustment Facility
SAPs	Structural Adjustment Policies/Programs
SOEs	State Owned Enterprises
SSA	Sub Saharan Africa (n Countries)
UIA	Uganda Investment Authority
UMA	Uganda Manufacturer's Association
UPE	Universal Primary Education
URA	Uganda Revenue Authority
USAID	United States Agency for International Development.
VAT	Value Added Tax
WB	World Bank

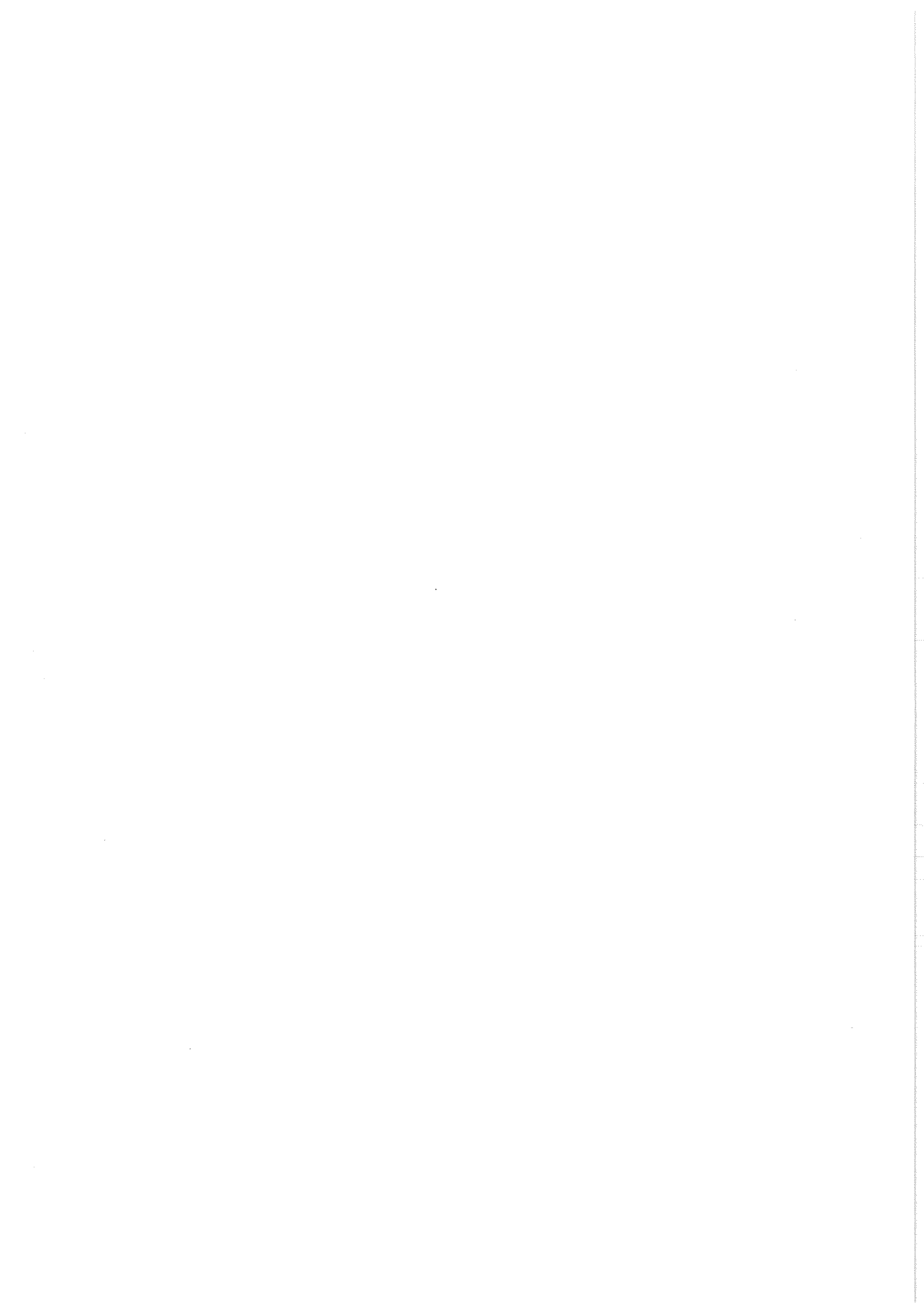
ABSTRACT

The paper reviews the effect of fiscal adjustment on the growth of the Ugandan Economy. No single factor is responsible for the growth of any economy but rather a blend of various policies and factors combine to propel a country to growth. Fiscal adjustment has been one of the various growth-oriented structural adjustment measures that Uganda has embarked on since 1987 to revive the economy that had suffered 15 years of decay and decline. Fiscal health is necessary for long term growth and stability but like most structural adjustment policies, fiscal adjustment policies in Uganda have been contested for their contradictions and repercussions on growth. Fiscal adjustment policies are indeed contractionary in the short run especially if there exist market rigidities but the long run effects may be expansionary. However, depending on the efficacy with which the measures are designed and implemented, even the short run need not be contractionary.

The notion that the budget deficit is not bad for growth as long as it can be financed by non-inflationary means like external and domestic non-bank borrowing does not hold a solution for Uganda. The capital market of stocks and bonds is still rudimentary and underdeveloped. External borrowing has increased Uganda's debt overhang to alarming rates. A high external debt ratio to GDP acts as a tax to future investors as proceeds from investment have to be used to repay the loan and the interest that accrues to it. Besides foreign investors are reluctant to invest in highly-indebted countries and this has negative repercussions for growth. There was therefore a strong case for Uganda to undertake fiscal adjustment. Reducing the deficit was not the only reason for fiscal adjustment in Uganda. Other objectives included improving productive and X-efficiency as well as "getting the prices/incentives right" all of which are necessary for growth.

This study on Uganda is aimed at evaluating the effect of the various measures of fiscal adjustment on the factors that affect the growth of the economy. Obviously, there exist both positive and negative effects of fiscal adjustment and these are reviewed in the paper. In a nutshell, total investment as a share of GDP increased following fiscal adjustment, Inflation rates fell, improved efficiency was recorded especially in the manufacturing sector, enrollment at tertiary education level increased slightly, health care consumption declined especially in the rural areas, and the gap between the rural poor and urban population widened. The period of fiscal adjustment coincides with a period of commendable growth in Uganda. Other factors aside from fiscal adjustment were also at play during the time of fiscal adjustment. These included liberalisation of trade and the exchange rate and financial liberalisation. Improved Infrastructure (road-networking), and export enhancement and diversity also contributed to Uganda's growth in that period.

Conclusively, growth-oriented fiscal adjustment should not adversely affect the work effort, induce capital flight, suffocate the export sector, reduce private investment or lead to a reduction in the savings level. It should therefore aim at achieving a reduction in the deficit with minimum inhibition to growth. The elimination of expenditure on inefficient SOEs and a down-sizing of the inefficient civil service were plausible policies for Uganda for the inefficiencies they cause hamper growth. Fiscal adjustment that will be durable and efficient in impact while at the same time bearing minimum costs on growth underscores the importance of prudence and efficiency in designing and implementing fiscal adjustment measures.



CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study of economic growth dates as far back as the subject of Economics itself. Most economists ascribe this beginning to the year 1776 when Adam Smith first published his famous treatise, *The Wealth of Nations,* and all economists and politicians, from all nations, rich and poor, capitalists, socialists and mixed have worshipped at the shrine of economic growth (Todaro, 1992:108). Economic growth thus holds great importance in the economic lives and policies of all countries and dominates modern economic discourse. The annual compilation and comparison of growth statistics of all countries in the world also attests to this fact. Fiscal adjustment is one of the various reforms that Uganda has been pursuing under the Structural Adjustment Policy package as a means of reviving her declining economy. Uganda's economic decline started in the 1970s and for most of the 1970s Gross Domestic Product (GDP) growth was steadily declining and by the end of the decade it had virtually collapsed (Baumia, 1996). O'Connell (1996) comments that high and persistent fiscal deficits are bad for growth and hence countries aiming at achieving growth should aim at lowering their fiscal deficits as much as possible - the essence of fiscal adjustment.

1.1 Background to Uganda's fiscal crisis and fiscal adjustment

Uganda's fiscal crisis like most of Uganda's crises started in the early 1970s owing to political instability and mismanagement of the economy that plagued the country between 1971-1985. This led to general decay of the economy and hence a decline in output and consequently a decline in incomes. This decline in incomes and output meant a diminished tax base and hence reduced tax revenue. Between 1960-1970, the tax ratio to GDP was as high as 10.9-15.5 percent of GDP. However it started declining throughout the 70s and in 1981, Uganda had her lowest tax ratio of 0.93 percent of GDP. This poor performance in tax revenue was coupled with inflated government expenditure to produce chronic budget deficits for the country. The excessive expenditure was the outcome of increased expenditure on political wars as well as general misappropriation of funds and frequent changes of governments. Further, during this time the fiscal deficit was mainly financed through monetary expansion and given the structural supply bottlenecks in Uganda at the time, inflation surged. Uganda has implemented a myriad of Structural Adjustment Policies under the Economic Recovery Program among which was fiscal adjustment which entailed pursuing tight fiscal policy measures. The objective of the fiscal austerity measures was to reduce inflation, reduce distortions in the economy and reduce the budget deficit to a level that would be consistent with medium and long term growth.

1.2 The Problem Statement, Objective of the Study and Hypothesis

Fiscal discipline is necessary for macro economic stabilisation and achieving long-run economic growth. Fiscal deficit which is the balance between a government's revenue and expenditure arise out of either too little government revenue, too much government spending or a combination of the two. Structural economists attribute the cause of deficits to external shocks like declining terms of trade, shortfalls in supply of exports and structural factors like natural disasters, debt repayments and financial turmoil which are often contractionary. These shocks are often offset by expansionary fiscal policy which culminates into fiscal deficits. Political forces also cause deficits and this is evident when the government due to its desire to maintain political legitimacy spends too much or taxes too little so as to appease certain groups of people or to maintain a given level of employment through increasing aggregate demand. This view is also shared by Schumpeter (1954) and O'Connor (1973). World Bank (1994:139) reported that developing countries that reduced inflation and budget deficits generally increased their growth rates while those that had high deficits continued to have slow growth or stagnated.

The presence of a fiscal deficit in a country further raises the question of financing the deficit. The three ways of financing the deficit *viz*: domestic borrowing, foreign borrowing and monetising of the deficit can have negative impacts on economic growth. Monetisation of the deficit (also called inflationary financing) can lead to hyper-inflation. This is rooted in the Monetarist Theory which posits that an increase in the money supply, especially if not matched by an increase in the level of output is positively correlated to the general price level. Domestic non-bank borrowing can "crowd out" the private sector from access to savings due to higher real interest rates or credit rationing while foreign borrowing can lead to cyclical swings in the real exchange rate and this may weaken the signal of the relative prices as incentive indicators for resource allocation (de Melo, 1995).

Although foreign and domestic borrowing do not entail printing of money, they impose the obligation on the government to pay interest on the loans and therefore the net benefit from these loans is less than the actual loans. Further, access to foreign borrowing depends on the willingness of the donor and is in most cases unreliable. Moreover, external borrowing increases the country's indebtedness and thus raises the ratio of the external debt to GDP. A large debt overhang acts as a tax on domestic investment as the proceeds from the investment have to be used for repaying the debt and this is a disincentive to investment. Worse still, increased indebtedness followed by difficulty in meeting the debt service obligation cause a deterioration in the relations with external creditors thus reducing the amount of foreign financing that a country can obtain (Foot and Krugman, 1990; cited in Greene J et al, 1991). Foreign investors are also unwilling to invest in

highly indebted countries. Although financing of the deficit through the sale of bonds and securities is given as a better option, most developing countries' capital markets are still rudimentary and undeveloped. Fiscal deficits therefore impact negatively on the long-term stability and growth prospects of the economy and hence the need for a country to pursue fiscal adjustment so that the economy can "live within its means" and avoid the repercussions of deficits.

Aside from reducing the fiscal deficit, fiscal adjustment aims at diminishing the role of the state in favour of the private sector so as to improve the incentive structure of the economy. Getting the incentives (or prices) "*right*", improves *X*- and productive efficiency. The global conventional view of the public sector is that it is characterised by unnecessary bureaucracies, inefficiencies, corruption and distortions while the private sector has less magnitudes of those vices. Transferring enterprises to the private sector exposes the enterprises to open competition and makes them more efficient as their survival depends on good and efficient management. Innovation and motivation are improved, production costs lowered and the response to consumer demand increased. Civil service reform increases efficiency and effectiveness of public sector management. Less government expenditure on the public sector would also imply that there are more resources available for social spending to complement the private sector as well as enhance that part of the public sector that is not transferred to the private sector.

Uganda is among the developing countries that have been implementing fiscal adjustment measures. Various fiscal measures which included the streamlining of tax administration, introduction of user charges or cost recovery in health and education, public enterprise reform and downsizing of civil service were implemented effectively since 1990. Fiscal reform has provoked a lot of criticism given the unpopularity of its tools. Increased revenue effort may reduce the disposable incomes of the people, reduce consumer and producer surplus and may lead to capital flight while expenditure-cuts mean less jobs and also more individual expenditure on social services that were originally provided free of charge or at subsidised prices. Fiscal measures in Uganda have been undertaken under opposition that they deter rather than foster growth. Among the critiques of fiscal adjustment have been Ugandan political scientists notable among whom is Prof. Mamdani (1990) who in his paper "*Uganda: Contradictions of the IMF Program and Perspective*" criticises IMF stabilisation programs that they "... will undermine any attempt to build an independent, self sustaining and integrated economy...". Some studies carried out in other countries however attest to the fact that fiscal adjustment is necessary for growth and has not hampered but rather fostered it.

The objective of the study about fiscal adjustment and growth in Uganda is therefore to evaluate if fiscal adjustment enhances rather than hampers growth. Although not all fiscal deficits add to aggregate demand and hence are irrational and disastrous for all countries, it is the *sine qua non* of IMF stabilisation policies to aim at reducing deficits regardless. In the case of Uganda, it is already evidenced that fiscal deficits have been disastrous as they contributed to the high levels of inflation and increased the country's indebtedness. Hence the need to pursue stabilisation measures through deficit reduction was plausible for Uganda. The research will augment on already existing research, literature and findings on the subject of fiscal adjustment and growth in developing countries.

The main working ***hypothesis*** of this paper is that fiscal deficits have negative implication for Uganda's growth and hence fiscal deficit needs to be constrained. Therefore fiscal adjustment geared towards reducing deficits in Uganda is necessary for sustained growth. Further on, fiscal adjustment rids the economy of inefficiencies and distortions that hamper growth.

1.4 The Scope, Methodology and Limitations of the Study

The subject of fiscal adjustment and growth is indeed a vast and multi-dimensional one and different researchers have approached it differently depending on their objective, orientation, methodology, the data at their disposal and obviously the time frame. A similar study on Cote D'Ivoire done by Koussay and Bouhon (1996), approached the subject from the point of view of which fiscal packages were more conducive for growth, while Easterly and Schmidt-Hebbel (1996) in their cross country regression comparisons, were mainly interested in the statistical relationship between macro economic variables and fiscal variables and growth. My study on Uganda is by no means exhaustive but within the confines of the data available, the time frame and the hypothesis under consideration, the study will attempt to assess the impact of fiscal adjustment on Uganda's growth by reviewing the impact on investment, macro economic stability, labour and efficiency to mention but a few.

There exists a two-way causality between fiscal deficits and other macro economic variables. Domestic and foreign macro-economic shocks may affect the country's revenue base and expenditure. For instance an international decline in export prices may depress tax revenue from exports while inflation shrinks the tax base. On the opposite causal side, public deficits may cause inflation and depress output. Fiscal adjustment and growth therefore also run in a two-way causal direction. Though cognisant of this fact, the study will only review the causality that runs from fiscal adjustment to growth because the objective of fiscal adjustment policies of the IMF in developing countries is to enable countries realise growth and not the other way round.

The methodology of the research will mainly be comparative, descriptive, and analytical and use of graphical presentations will be frequent to support most of my arguments. The study will depend on secondary data from various issues of the Background to the Budget of Uganda, the World Tables diskette 1994, and International Finance Statistics (IFS).

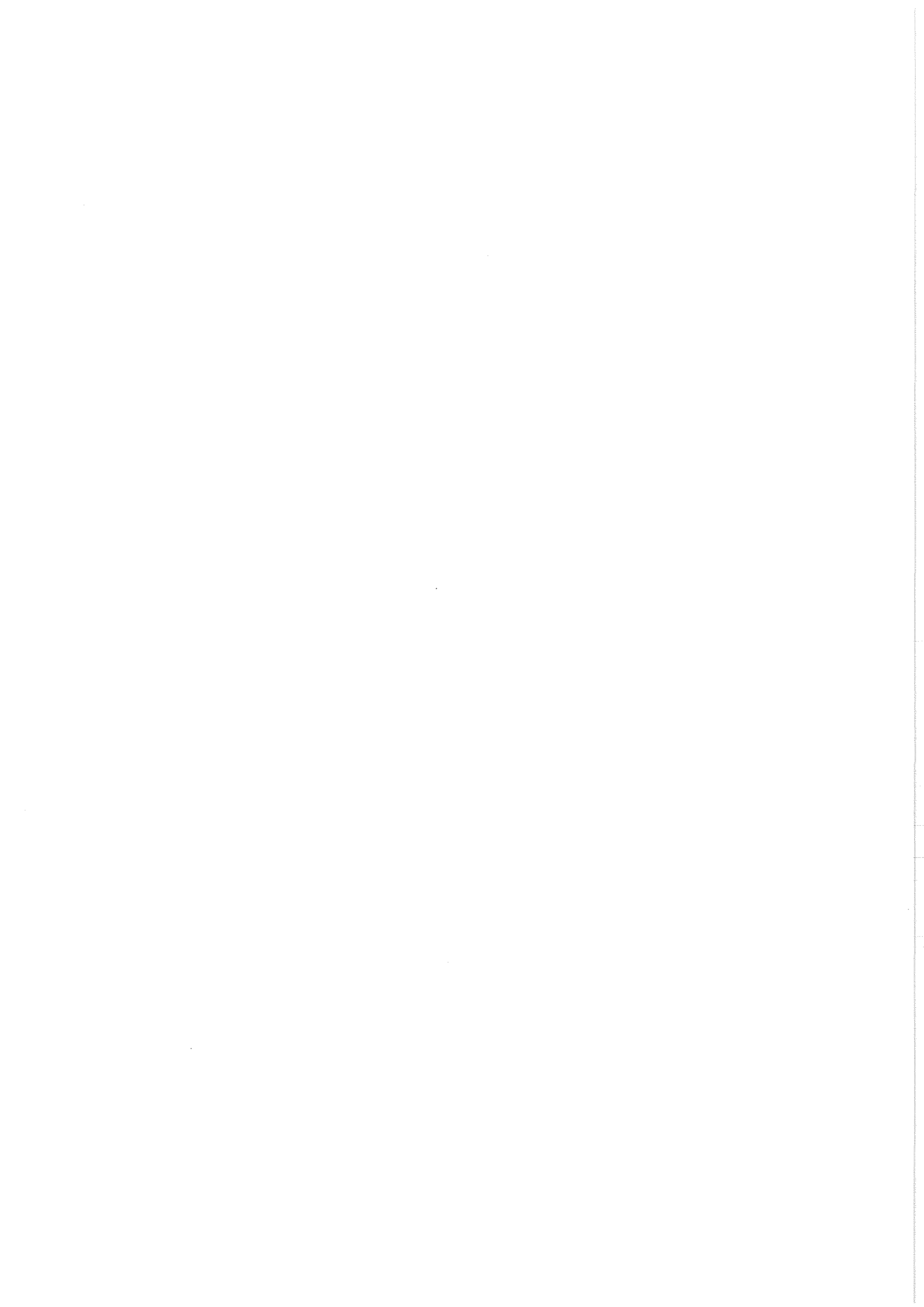
The limitation of accurate, reliable and consistent data in economic research need not be over-emphasised. Data compilation in Uganda has been poor and most data sources are unreliable. Also, some disaggregated data series are not compiled on a regular basis. Lack of consistent disaggregated data series hinders a thorough analysis in cases where disaggregated data would be most appropriate. For instance while I would have liked to investigate the impact of infrastructural public investment on private investment, data on public investment only gives aggregated public investment and not a breakdown between infrastructural and non-infrastructural public investment.

1.5 Organisation of the paper

The study will be divided into five chapters. The first chapter has been the introductory part of the paper. Chapter Two will cover the conceptual framework and literature review. In this chapter a review of the theoretical literature on the determinants of growth will be made and the relationship between growth and fiscal adjustment reviewed. A review of earlier empirical studies carried out on the subject of fiscal adjustment and growth will also be made here.

Chapter Three will derive from the concepts and literature reviews developed in chapter Two as well as background information on Uganda's economy covered in chapter One. In this chapter I will give background information and an overview Uganda's economic profile from 1960 to 1996. I will also give an overview of the various fiscal measures taken and implemented as a package of fiscal adjustment in Uganda. Their fiscal achievements will also be reviewed here.

Chapter Four will be the analytical chapter of the study. In this chapter, the study will review the impact of fiscal adjustment measures on the sources of growth. The various components of Uganda's GDP and their growth trends for the period 1986 to 1996 will also be reviewed while highlighting the impact of fiscal adjustment measures on their growth. Other general factors that have contributed to Uganda's growth will also be explored. The fifth chapter will give the summary findings, conclusions and policy recommendations of the study.



CHAPTER TWO

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.0 Introduction

Macro economic stability in the form of low inflation rates and low fiscal deficits, is necessary for growth. An unstable macro economic environment stifles growth by providing the wrong market signals. Fiscal health is important but like all other contributors to growth, not in itself sufficient for achieving economic growth of a country. The first part of the chapter will cover the determinants and sources of growth according to various growth theories and models. There are many growth theories and this paper will not attempt to exhaust, but rather review a few of them. The theory and practice of fiscal adjustment will be presented in the subsequent section. Section 2.3 will review the various instruments of fiscal adjustment in developing countries. The theoretical positive link between fiscal adjustment and economic growth will also be explored in section 2.4. The last part will dwell on the literature review of earlier empirical studies on the relationship between fiscal adjustment and growth carried out by different scholars and researchers.

2.1 Economic Growth

The benefits that accrue to society due to economic growth, propel countries into pursuing growth-oriented policies. Arthur Lewis (1963) comments that growth benefits society by *increasing the range of human choices*; by freeing man from the bondage of famine, diseases, availing more goods and services, and hence economic growth reduces death rates and enables society to attain a higher standard of living. Growth is however more beneficial to society when the benefits are equitably distributed but in cases where the benefits fail to trickle down to all members of society, growth benefits are skewed and the majority of society may be negatively affected. This is a problem of income distribution and the negative implications of skewed distribution of growth benefits are outside the confines of this paper. Suffice to say here that growth is desirable and that developing countries desire to achieve higher levels of growth.

The growth of an economy is measured as the annual growth of real GDP per capita. Growth in the National Income Identity Y=(C+I+G+X-M)[1] would mean real growth in the components of output (Y). Kutznets (Nobel Prize in Economics, 1971) defined economic growth as a "*long-term rise in capacity to supply increasingly diverse economic goods to its population ... and this capacity is based on advancing technology and the institutional and ideological adjustments that*

[1] C=Priavate consumption, I=investment, G=government Consumption, X=Exports and M=Imports. *dY=d(C+I+G+X-M)*. However because M is negative, the lower the M the higher the Y.

it demands". The growth of output depends on growth in inputs which include among others level of investment, the labour input, macro economic conditions, literacy and numeracy levels, as well as social structures that are conducive for growth.

2.1.1 The Determinants of Growth

The determinants of growth vary amongst the various models but all these models recognise that investment (change in capital stock), the labour input and technical change are necessary for growth. Most Growth models derive from the traditional neoclassical production function which explicitly states that Out put *(Y)*, is a function of Capital *(K)* and Labour *(L)*

$$Y=f(K,L) \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad \text{(i)}$$

On this identity, Solow adds technical progress and productivity change. His growth model relates growth in output to capital inputs, skilled and unskilled labour, increases in efficiency and productivity in the way inputs are used. He uses technical change (t) to refer to all those slow-downs, speed-ups, and improvements in the efficiency and education of the labour force. (Solow, 1957:402).

$$Y=f(K,L;t) \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad \text{(ii)}$$

Roy Harrod and Evsy Domar (1940s) in their *Harrod-Domar* growth model, $g=s/k$, (where g is the growth rate, s the savings rate and k the capital-output ratio), indicate the importance of investment and savings in growth. Rostow, the historian-economist recognises the importance of huge investment so that countries can be able to "take off" to maturity. Simon Kutznets (1971) in his Nobel lecture; "*Economic Growth: findings and reflections*", aside from technological advancement, accentuates the complementary role of institutional, attitudinal and ideological adjustment in achieving growth. In his elaborate analysis he equates technological innovation without complementary social innovation to an electric light bulb without electricity which has the potential but is useless unless complemented.

Romer (1986) emphasises the role played by both physical and human capital as well as the role of "learning by doing" in growth. Lucas (1988) further affirmed that human capital is of great relevance for growth. The new growth theories consider increasing returns to scale and externalities as important contributors to growth. High literacy and numeracy levels have important externalities. Modern production and marketing techniques which are necessary for growth require the ability of people to read, write and count. Development of human resources is an important contributor to increased productivity and sustainable growth as there appears to be a correlation between school enrollments and the average rates of growth. Ishrat Husain (1995) comments that although a

country can achieve growth for a limited period due to a natural resource or inflow of aid, sustainable growth can only be achieved through human resource development. The East Asian countries are given as examples of countries that achieved high growth due to among other factors, their earlier investment in human capital accumulation.

2.1.2 Macro economic factors as determinants of growth

Modern growth theories consider the indirect role played by macro economic polices in determining growth. Macro economic factors also do have a bearing on growth by impacting on investment and by affecting the efficiency with which factors of production are used (Fischer,1992). Large budget deficits may crowd out physical investment as the uncertainty created by instability of the fiscal deficit may reduce the level of investment and productivity (ibid). High inflation can reduce investment and induce capital flight. Inflation further distorts price signals and may therefore lead to distortions that reduce the real wage and the rate of return of investment. Although the experience of Latin American Countries is well documented as countries that have achieved high growth rates amidst triple digit inflation, high inflation has hampered the growth of many developing countries. Macro economic stability specifically in the form of low fiscal deficit, low inflation and stable exchange and trade regime are necessary to give investors confidence to undertake long term investments.

To Cardoso (1993), terms of trade were a very important macro economic determinant of growth. In his synthesis in his study of Latin America, he concluded that bad terms of trade negatively affected profitability of investment in the export sector, consequently reducing the level of total investment. Distribution of income is also said to affect growth. Larrain and Vergara (1992) affirm that inequitable distribution of income may hinder growth as it leads to social conflicts that may hamper capital accumulation. Proponents of the "*growth with equity*" theory and those of "*redistribute, then grow*" also acknowledge the dangers of income inequality in achieving growth while the proponents of "*grow first, then redistribute*" see a delay in achieving growth if income has to first be redistributed.

The discussion of the determinants and sources of growth in various theories and models is indeed a long one and more elaborate than what can be presented here. The important synthesis to derive for the purpose of this paper, is the evidence that generation of output and consequently growth depends to a large extent on the investment level, while also other factors like the human capital and macro economic health also have a bearing on growth. It is in this vein that investment becomes of utmost relevance in analysing the sources of growth. It can also be inferred here that savings are necessary for investment and consequently for growth to take place. While the neo-classicals

affirm that savings determines investments, to the *Keynesians, Kalecki* and *Kaldor*, the causal relationship runs in the opposite direction on the understanding that investment increases national income which increases savings. While this debate is unresolved, suffice for this paper to say that investment is necessary for growth and that savings are necessary for investment.

2.2 The Theory and Practice of Fiscal Adjustment

Fiscal adjustment falls under the stabilisation programs of the IMF which also fall under the broader group of Structural Adjustment Programs (SAPs). The term Structural Adjustment was first used by the developed countries to refer to the restructuring and revamping of the declining industries of textiles, leather goods and light engineering which could no longer favourably compete with the new industrial capacity that was flourishing in the developing countries. Beginning with the 1980s however, the term changed meaning to refer to those World Bank and IMF-funded macro-economic reforms undertaken by developing countries. Structural Adjustment which is the broader term entails both Structural Adjustment "proper"[2] (the territory of the WB) and stabilisation policies (the territory of the IMF). Although theoretically the distinction between the two can be demarcated, in practice their programs have tended to overlap so much so that Taylor (1993) and various other authors refer to them as *"The Washington Concesus"*. Structural adjustment "proper" policies are medium- to long-term supply-side reforms meant to free up the market forces and so promote long term growth (Lall, 1990; pp22). The tools used include among others, liberalisation of trade, industry, agriculture, decontrolling of prices, and liberalisation of the financial sector while the loans advanced to the countries include Structural Adjustment Loans (SAL) and Sectoral Adjustment Loans (SECAL) .

Fiscal Adjustment falls under the stabilisation policies of the IMF which are shorter-term demand policies supported by the Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF). The SAF (established in 1986) and ESAF (established in 1987) are concessional facilities, IMF loans to assist low income countries with less than per capita income of 550 US $ achieve sustained growth. The key objective of the SAF and ESAF is to strengthen public sector savings and this puts fiscal adjustment at the core of the stabilisation policies. Given that demand policies give relatively more immediate effect and also because it is generally easier to reduce absorption than to increase output especially in the short run, demand policies (stabilisation) often precede supply policies (SAP "proper").

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[2] Structural Adjustment "***proper***" is a term also used by Sanjaya Lall (1990)

2.2.1 Fiscal adjustment: the neo-classical stance

Fiscal adjustment is pursued as a means of reducing absorption or aggregate demand with the objective of maintaining economic stability and reducing the fiscal deficit thereby improving the fiscal strength of a country. According to the neo-classicals, macro-economic disequilibria derive from the micro-economic imperfections and consequently, internal and external disequilibria are caused by excessive aggregate demand and can therefore be remedied by a reduction of aggregate demand (Absorption). This reduction is done through increased taxation and reducing government expenditure. In addition the neo-classicals assert that government intervention distorts prices and therefore to *"get prices right"*, resource allocation should be left to the market system and the private sector. The neo-classical economists advocate for a reduction of public investment on the argument that increased public expenditure "crowds out" private investment. Direct crowding-out theories postulate that an increase in government expenditure into market-determined goods and services crowds out private investment just like the purchase of large quantities of goods and services by the public sector deprives the private sector of inputs necessary for production, consequently leading to a decline in private sector output (Blejer, 1987).

2.2.2 The structuralist critique

The structuralist economists criticise the neo-classical notion of little or no state intervention. To the structuralists, if markets are left to themselves they will not restore internal and external equilibria. Some of the structuralists advocate for government policies and controls because market imperfections are inherent in the real world and markets are not the solution but rather the problem and therefore need to be controlled. On the question of public investment crowding out private investment, the structuralists affirm that the reverse is true. Public investment does "crowd-in" private investment. This is especially true if the public investment is related to social infrastructure as public expenditure that is related to social infrastructure complements and can enhance private investment. Public expenditure on infrastructure especially in situations where infrastructure is non existent or underdeveloped has been found to have very positive crowd-in effects on private investment (Mario, 1984, Greene J and Villaneova, 1991). Public investment can however crowd out private investment if it misuses scarce physical and financial resources that would otherwise be available to the private sector or if it produces marketable output that competes with private sector output (Blejer and Cheasty, 1989). The effect of public expenditure on private expenditure may therefore be a "crowd-in" or "crowd-out" depending on the nature of public expenditure undertaken, as well as the structure of the economy.

2.3 Instruments of Fiscal Adjustment

Fiscal adjustment entails revenue-enhancing and government expenditure-cutting measures directed towards increasing public savings and these are reviewed below:

2.3.1 Revenue-enhancing Measures

On the revenue-increasing side, fiscal adjustment recommends policies that broaden the tax base and the introduction of consumption taxes like the Value Added Tax (VAT) and levying higher excise duties on commodities that have price inelastic demand and those whose consumption generates substantial negative externalities. Another way of raising revenue is to remove quotas and other quantitative restrictions and replacing them with import duties. Also introduction of user-fees on public utilities is recommended as a source of revenue.

(i)Tax reform: A complex tax system encourages evasion and avoidance and hence a loss in government revenue and yet there is no proof that revenue lost through evasion and avoidance is put to efficient uses that increase total output. Adjustment therefore recommends simplifying the tax system by improving both the tax administration and the tax structure. Tax reform does not necessarily imply raising the tax rates or the introduction of new tax handles. Improved tax administration involves better training and better remuneration of the revenue collecting staff, adequate facilities, heavy and prohibitive penalties as well as strong auditing and enforcement. In some countries like Ghana and Uganda, the role of revenue collection was removed from the civil service to increase administrative efficiency. Tanzania, Bolivia and Benin give special incentives to the tax collectors to reduce tendencies of corrupt revenue collecting officers (Faini and de Melo, 1993). Restructuring of the tax system entails reduction of reliance on international trade taxes in favour of domestic taxes like the VAT. The VAT is recommended on the grounds that it raises revenue in an efficient way within shorter time lags. The personal income tax and the corporation taxes can also be restructured by reducing the high marginal rates, reducing the number of rates, reducing exemptions and deductions, tightening the coverage of fringe benefits or by shifting from scheduler to global concepts of income (IMF, 1991, pp21). In countries where excise duties are non existent they may be imposed on commodities with price inelastic demand and those whose consumption has strong negative extenalities.

(ii) Raising (or introducing) the prices of public utilities: Introduction of user-fees on public utilities or raising the fees of public services is also recommended because it generates more revenue, reduces the need for additional investment to expand capacity and

increases efficiency. The free (or low-price) provision of these commodities causes overuse, overcrowding and constant breakdown and deterioration of these facilities. The fees reduce overuse and overcrowding and hence reduces maintenance costs. On the grounds of equity, it is often argued that the poor do not have access to most of these services and therefore they are not adversely affected by such fees. While this may be true for commodities like higher education, it is not true for primary education and primary health care services.

(iii) Dismantling of quotas: Quotas and other quantitative restrictions (QRs) restrict the import tax base and thus need to be replaced with import duties. Removal of QRs and openness of countries is therefore recommended as another way of raising tax revenue from imports.

2.3.2 Expenditure-Cutting Measures

Fiscal adjustment also emphasises cutting expenditure. Government Current Outlays include wages and salaries for the public servants, expenditure on goods and services other than wages like fuel, rent, office supplies, travel, telephone and communication and all other equipment with a life span of less than one year, military costs, interest payments on past and present loans and subsidies or transfers to SOEs and individuals. The development budget accommodates the construction of roads, schools, and purchase of other durable equipment. Different parts of the government budget are cut depending on the country's policy and structure. The savings from the budget are intended to be used to increase government savings and may be spent on operations and maintenance of productive investment that generate positive externalities and are complementary with private sector investment. This improves efficiency of the existing capital. The choice of what expenditure should be cut requires the identification of the least efficient and least productive public investments. Productive investment on the other hand should be protected as it is important for growth. Stern (1991) recommends the use of cost-benefit analysis and use of shadow prices to evaluate the future stream of earnings that an investment will generate. Expenditure cutting entails the following public sector reforms:

(i) Public sector wage-bill cuts: Downsizing the civil service as a means of cutting the wage-bill has been the most common and most easily implemented reform undertaken by adjusting countries. In most of these countries, the public service was not only large but also inefficient and this put into perspective the need to reduce the expenditure on the over-manned public sector through retrenchment of staff. Though the wage-bill can be reduced either through reduced employment or reduced wages, Tanzi (1993) correctly

argues that down-sizing public employment should be preferred to reductions in wages. This is because wage-cuts lead to loss of motivation and lower productivity. Lower wages increase the acceptance rate of bribes and the incentive to seek for extra employment and hence perpetuates public service inefficiencies at a time when the civil service is expected to play a dynamic role in the revival of the economy. Besides, if real wages are lowered considerably they are likely to bounce back in the long run due to pressure from the civil service unions. Down-sizing also reduces other complementary expenditures like expenditure on workers' tools, workers' space, family allowances, paper etc., and hence is likely to guarantee more savings and have more durable effects than a real wage cut. The down-sizing can also be extended to the military through demobilising of soldiers.

(ii) Privatisation and liquidation of SOEs: The rationale for privatising and liquidating SOEs, is to reduce government expenditure on SOEs which often comes by way of direct and indirect subsidies. Most of these SOEs especially in developing countries fail to earn adequate return on the capital invested on them. In some extreme cases they even fail to cover operating costs and depended totally on the government subsidisation. In this vein, they become a permanent burden to the already constrained budget and this necessitates public enterprise reform which takes place through auctions, public floatation and the exercise of pre-emptive rights. Aside from reducing expenditure on unprofitable SOEs, privatisation improves productive efficiency through exposing these enterprises to competition. In some instances, SOEs are restructured instead of being privatised also with the aim of increasing efficiency.

(iii) Reduction of Subsidies and Unproductive expenditure: Governments in developing countries continue to incur large expenses on subsidies and unproductive expenditures like the construction of monuments and purchase of expensive cars for public officers (Tanzi, 1993) which drain their budgets. Subsidies through artificial reduction in consumer-commodity prices are intended to protect the poor, but in some cases end up benefiting the middle class and hence fiscal adjustment advocates for their scrutiny and eventual elimination.

2.4 The Theoretical link between Fiscal Adjustment and Growth

Fiscal adjustment does not contribute directly to growth because it does not always provide more resources for overall domestic investment. Instead the contribution of lower public deficits to growth is indirect by enabling a more stable macro economy (Schmidt-Hebbel, 1996). Fiscal

adjustment aims at reduction of the size of the fiscal deficit and invariably lowers public investment. The short term effects of fiscal adjustment may therefore be contractionary especially if the economy has market rigidities. The long run effects may however be expansionary, implying a trade off between short term and long term benefits. The long-term effects of fiscal adjustment on growth also derive from the resource contribution to higher domestic investment and a reduction in financial/monetary distortions and macro economic instability (ibid). The avenues through which Fiscal adjustment affects growth are reviewed below.

a) Increased Domestic Investment

Fiscal adjustment entails lowering public expenditure so as to raise public savings. The key objective of strengthening public sector savings is the possible positive contribution that increasing public savings have on growth through releasing resources to the private sector and supporting infrastructural public investment. Positive effects on growth can only be felt if the reduction in public investment is lower than the indirect contribution higher public savings makes to private investment. For growth to take place, it must be true that higher public saving raises national savings and that higher national savings translate into higher total investment levels. This way capital formation would increase and so would growth. The theoretical underpinnings of this relationship also imply that higher national savings lead to a lowering of the domestic real interest rate so as to raise the investment level and consequently growth. The increase in domestic investment accruing from these resource benefits further attracts foreign investment in the form of new foreign investments as well as joint-ventures. Various studies done on the resource benefits of fiscal adjustment to growth give differing results for various countries some of which are show a negative effect, making the theoretical basis ambiguous.

b) Enabling a more stable macro economic environment

The unambiguously positive channel through which fiscal adjustment boosts growth is the benefit that comes with lower fiscal deficits. By lowering the fiscal deficit, financing of this deficit through monetary expansion which fuels inflation can be reduced. A more stable macro economy affects the quality and quantity of private investment positively. With fiscal adjustment, unconventional[3], distortionary and unstable forms of taxation like the inflation tax and financial repression taxes give way to conventional, explicit and more stable forms of taxation. Consequently, financial deepening and lower price variability is achieved. The improvement in financial intermediation and macro economic

[3] In the absence of efficient tax systems, governments resort to various forms of taxation some of which are distortionary.

stability raises the quantity and quality of private investment (see Carbo and Rojas, (1993), Pindyck and Solamino, (1993), and Serven and Solamino, (1994)), and this raises growth (Easterly and Rebello, (1993), Fischer, (1993) and Easterly and Levine, 1994).

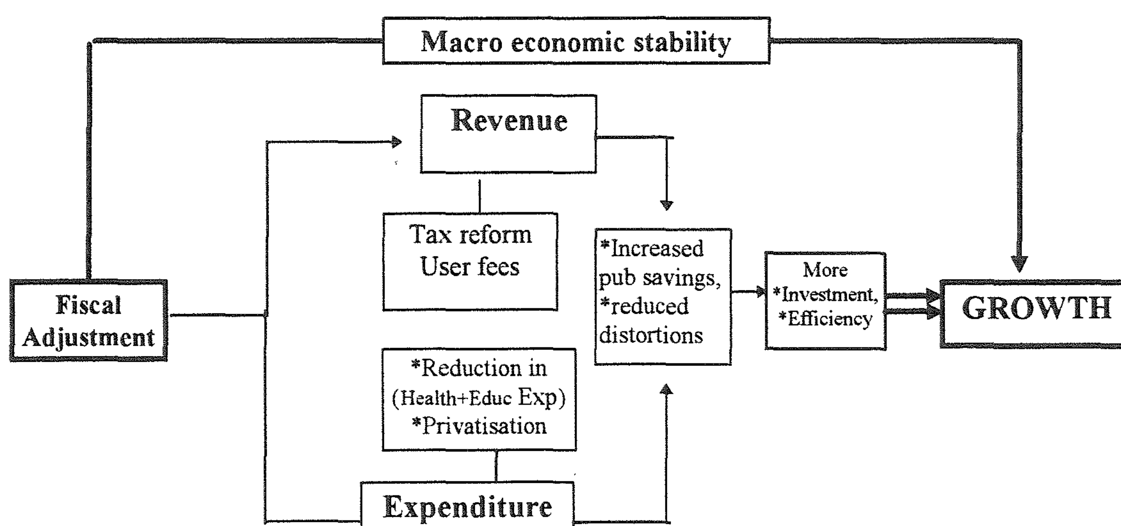
c) **Increased Efficiency**

Although the above two avenues are the major theoretical ways in which fiscal adjustment impacts on growth, there are other growth-related benefits related to ***efficiency*** that comes with privatisation of public enterprises. It is the conventional wisdom that private enterprises are more efficient and productive than the public ones. Privatisation for instance exposes firms to competition and makes them more efficient in factor use. It was already noted that the efficiency with which factors of production are used is a contributive factor to growth. Therefore a country can achieve more output growth from privatised enterprises than from the public-owned ones.

2.4.1 Analytical framework:

The analytical framework (Figure 2.1) shows the mechanism through which fiscal adjustment impacts on growth. The bottom-up (in this case; left-right) logical frame-work for this relationship runs as follows: The INPUT is Fiscal Adjustment, the OUTPUT is lower fiscal deficits, the OBJECTIVEs are increased public savings, better macro economic environment and efficiency and the GOAL is growth.

Figure 2.1 Analytical relationship between Fiscal Adjustment and growth.



In between these causal links there are tools namely expenditure-cutting and revenue-enhancing measures. There are also assumptions underpinning the relationships. For instance the outcome of a stable macro economy from fiscal adjustment is under the assumption that the monetary policy stays stable. Measuring the success and achievements uses various indicators that may be both quantitative and qualitative.

The theoretically unambiguous way in which Fiscal Adjustment contributes to growth is through improved macro economic stability. Growth benefits accruing from efficiency are achieved especially when the economy was characterised with inefficiencies in the public sector. There are however complimentaries and contradictions between fiscal adjustment and growth. Stability and growth are two complementary and conflicting phenomena (Blejer and Chu, 1989). Sustained growth requires macro economic stability and to attain stability excess aggregate demand needs to be cut. The overall impact of fiscal adjustment on growth depends on the net effect. If the contradictions exceed the complementarities then fiscal adjustment ceases to be a necessary tool of growth and in fact it becomes an obstacle to growth. Therefore it is important that fiscal adjustment be effected efficiently with the aim of reducing this trade-off and the efficiency with which fiscal adjustment is carried out has implications on growth.

2.5 Review of Empirical Studies

Klaus Schmidt-Hebbel (1996) in his study *"Fiscal Adjustment and growth in and out of Africa"*, used cross-country comparisons of a combination of 36 African countries, 21 Latin American countries, 17 other LDCs as well as 19 OECD countries. He used cross-country regressions to establish that stable growth was correlated to lower budget deficits. The findings were that fiscal adjustment did not lead to higher growth through providing more resources for domestic investment but rather through reducing macro economic instability. It was his observation also that macro economic stability did not only depend on fiscal health. His analysis of the experience of Ghana and Zimbabwe on how fiscal adjustment contributed to macro economic health and growth showed that deep fiscal adjustment was necessary for achieving high growth in these countries. Ghana, before fiscal adjustment had experienced several years of high fiscal deficits, massive state intervention and dismal growth while Zimbabwe which put off fiscal adjustment for 12 years experienced low growth and rising poverty. Following fiscal adjustment these countries achieved higher growth rates. He also concluded that broader public sector reforms stabilise general government finances and eliminate public enterprise deficits. The final conclusion was that macro economic stabilisation needs to be complemented by financial and trade liberalisation so as to achieve a path of high private investment and growth.

The most unambiguous negative impact of high deficits on growth harbours in the fact that high deficits lead to inflation. However, O'Connell (1997) in his review of "*Public sector deficits and macro economic performance*" reveals that although this was the case for most countries, in Morocco and Pakistan, high and persistent deficits did not lead to macro economic instability. This implies that the relationship between high fiscal deficits, high inflation and consequently lower growth rates need not be assumed automatic just like the relationship between lower fiscal deficits and lower inflation and consequently higher growth is not always the case as this varies from country to country.

Oussou Koussay and Boubre Bouhoun (1996) carried out a study on fiscal adjustment in Cote D'Iviore with reference to growth prospects of the Cote D'Ivoirian economy. Cote D'Ivoire undertook economic reforms in the 1980s to overcome financial and economic crisis. Fiscal adjustment in the form of expenditure cuts was the major reform component. Koussay and Bouhon hypothesised that fiscal adjustment especially public investment cuts would induce a recession as public investment crowds in private investment. They used statistical analysis to establish the crowding-in effect of public investment on private investment. Their results were consistent with their hypothesis. They add however that there is need to disaggregate the public investment into infrastructural and non-infrastructural investment so as to get a better understanding of the phenomena. They went further to simulate the impact of various fiscal adjustment packages on growth to establish if the nature of fiscal adjustment package mattered for growth. Their findings were that growth-oriented fiscal adjustment programs in Cote D'Ivoire should not lower public investment or raise taxes on the external sector.

2.6 Conclusion

This chapter has covered the theoretical and conceptual frameworks within which the study is conceptualised. It has covered aspects of economic growth and the practice of fiscal adjustment and these are crucial in assessing the impact of fiscal Adjustment on Uganda's growth. The theory and practice of fiscal adjustment in developing countries presented in this chapter will be complemented with a presentation of Uganda's case in the next chapter.

CHAPTER THREE

OVERVIEW OF THE ECONOMY AND FISCAL ADJUSTMENT IN UGANDA

3.0 Introduction

Apart from giving background information and an overview of the growth of the Ugandan economy in the period between 1960 and 1996, this chapter will review the various forms of fiscal adjustment that have been implemented in Uganda since 1990 to 1996. The fiscal achievements of these measures will also be explored to evaluate their impact on the fiscal deficit. That is; to evaluate what has happened to Uganda's deficit after fiscal adjustment especially in terms of size and financing. These changes in the fiscal deficit have implications on growth and are imperative in analysing the impact of fiscal adjustment on growth.

3.1 Overview of Uganda's economy and growth trends 1960-1996

Uganda belongs to the Low Income Sub Saharan African (LISSA) countries. Uganda's economy is basically Agrarian and about 54% of GDP derives from Agriculture. Agriculture is the main preoccupation of about 75% of the Ugandan population and over 85% of Uganda's merchandise exports are agriculture-based. The industrial sector still contributes less than 15% to GDP. At the time of independence in 1962, Uganda's economy compared favourably with other sub Saharan African countries owing to good tropical climate, mineral endowments, fertile soils that combined to lead to the exceptional performance of the economy. The economic power at the time hinged on the three Cs (Coffee, Cotton, and Copper) and the three Ts (Tobacco, Tea and Tin). Uganda's growth history between 1960-1996 can be distinctly divided into three periods.

3.1.1 Stable and Sustainable Growth (1960-1970)

The period 1960-1970 was Uganda's pre - and post - independence period. This was the period before economic decline set in and is characterised as a period of steady growth. In this period, average per capita GDP growth was 5.48% per cent per annum and average inflation was minimal at 3.9.%. The average fiscal balance was in a surplus of 1.01% of GDP. Also, the monetary sector contributed over 70% of GDP while the subsistence sector accounted for less than 30%. Gross Domestic Savings as a ratio of GDP averaged as high as 15% thus creating a source for financing internal investment. Other factors that contributed to Uganda's growth after independence included the growth of the manufacturing sector particularly the textile sector, light agricultural tools, cement and sugar industries which blossomed through the 1960s out of import substitution strategy into substantial export products to the East African Community and beyond. Other sectors like the fisheries, agriculture, livestock also enhanced the rural production sector.

Social services and economic infrastructure grew at an estimated rate of 6.2% per annum thus raising their share of real monetary GDP from 48% in 1966 to 51% in 1970. (Ddumba-Ssentamu, 1994). Up until 1970 therefore Uganda had one of the most promising economies in Sub-Saharan Africa.

3.1.2 Economic Decline (1971-1986)

The period 1971-1986 was the period of dire economic decline in the history of Uganda's growth. Although most economic crises in most countries are caused by a combination of both external and internal factors, Uganda's economic decline prior to adjustment was mainly a result of internal policies, political instability and inappropriate incentive structures in the 1970s, as well as structural weaknesses. The political instability which set in January 1971 diminished the entrepreneurial spirit and the expulsion of 45,000 Ugandans of Asian origin from Uganda in 1972 was a major blow on the economy as it killed both domestic and foreign investment incentive. Asians who formed the biggest number of investors and business group in Uganda were expelled and their properties confiscated and redistributed to the indigenous citizens who had no proper managerial capabilities. Management of the economy was also poor as proper administrators and technocrats had fled the country and therefore wrong economic policies were pursued during this period. On the macro economic front, this period was characterised by higher inflation rates averaging between 61.8 and 109.2 percent. Causes of Uganda's inflation at the time included the lack of supplies which was a direct result of a decline in output as well as the unavailability of foreign exchange to purchase imports to supplement the domestic production. The fiscal deficit was increasingly rising and ranged between -3.63 and -9.52 percent of GDP for most years and was financed mainly through borrowing from the Central Bank, thus fueling more inflation.

GDP growth was mainly negative. The manufacturing sector which had blossomed in the 1960s underwent total decline due to lack of complementary raw materials. The formal sector disintegrated and was replaced with illegal activities like wide-spread smuggling. Commercial farming which had flourished in the 1960s was abandoned for subsistence output. Consequently the monetary sector whose contribution to GDP was well over 70% in the 1960s, shrunk to an average of 62-68% for most of the years in this period while the non monetary sector contributed over 30%. In this period of economic decline, the current account was also in bad shape, mainly in deficit, apart from 1976 and 1977 when Uganda achieved a current account surplus due to an increase in coffee prices following Brazil's failure to supply sufficient amounts of coffee to the world market. Conclusively this period had relatively higher inflation, higher fiscal deficit, low declining and fluctuating growth, most of which was negative.

Amidst these deteriorating conditions, Uganda made the first attempt at structural adjustment in June 1981. Uganda's situation at the time warranted a change, as the economy was characterised by macro economic disequilibria. There was also general scarcity of goods, black marketeering, increased smuggling, hoarding and rationing of commodities amidst wide-spread price controls. The objective of this first wave of adjustment was to overcome further decline in the economy and revive production. On the fiscal front, *ad valorem* rates were introduced to replace specific duties so as to ensure buoyancy of the tax system. Other measures included dismantling of price controls, increment of interest rates and an upward adjustment of producer prices. The achievements of these adjustment measures were initially positive but later the conditions worsened. Inflation initially dramatically dropped from 108.7% in 1980 to 24.1% in 1982. However, by 1984 it had sky-rocketed to 132.4%. GDP growth which was 3.86% in 1981, dramatically declined to -4.75% by 1984. It was evident by the end of 1984, that this first wave of SAPs had collapsed. Aside from the poor social and political conditions that existed in Uganda at the time, donor funding was also usually late and sometimes inadequate and hence in 1984 the program was abandoned.

Table 3.1 GDP growth, fiscal balance/GDP and inflation for selected years

Average annual percentages	Years							
	60-70	71-80	81-86	87-92	93	94	95	96
Growth of GDP	6.31	-1.65	3.18	6.24	7.06	10.58	9.99	5.03
Growth of p.c GDP	5.48	-4.24	1.11	2.95	-3.50	7.20	6.39	1.91
Fiscal balance	1.01	-5.02	-2.74	-3.15	-2.79	-3.24	-2.07	-1.53
Inflation	3.9	61.8	109.2	72.8	6.1	9.6	8.6	7.3

Source: Background to the Budget and IFS; growth computed at constant prices (1990=100)

3.1.3 Economic Recovery (1987-1996)

The period 1987-1996, is Uganda's period of reconstruction and adjustment. In May 1987 another attempt at Structural Adjustment was made following further deterioration and worsening of the economy. Scarcity of goods and services was increasing. In the period 1984-87, for the first time in Uganda's history, Uganda experienced triple digit inflation rates for four consecutive years. In 1984, 85, 86 and 87 inflation was 132.4, 168.5, 238.1 and 183.6 respectively. Uganda undertook the Economic recovery Program (ERP) of 1987 with funding from the Economic Recovery Credits (ERC), Structural Adjustment Credits (SAC), International Development Agency (IDA) as well as the Enhanced Structural Adjustment Facility (ESAF) and Structural Adjustment Facility (SAF) of the IMF. This ERP had the objective of sustaining an economic growth rate of at least 5%. (Ddumba Ssentamu, 1994). The ERP also had the objective of creating an enabling environment

for increasing the volume and variety of exports, restructuring the incentive structures of the economy as well as restoring monetary and fiscal discipline. The short-run period after the second attempt at structural adjustment (1987-1992), is characterised by average inflation rate of 72.8, a fiscal balance averaging -3.15 percent of GDP. The initial worsening of some sectors is in line with the J-curve type of response.[4] The subsequent years 1993 - 1996 however, registered declining inflation, declining fiscal deficits, a reviving monetary sector and more stable positively increasing GDP growth; with 1994 registering the highest growth of 10.6%. This was also the highest growth rate in Uganda's history in the past two and a half decades.

Figure 3.1 Inflation rate 1970-1996

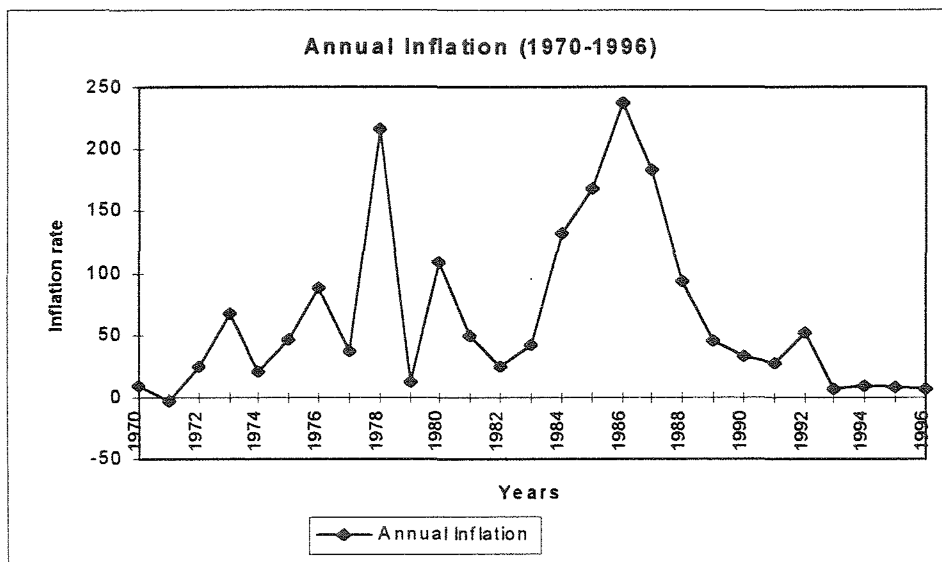
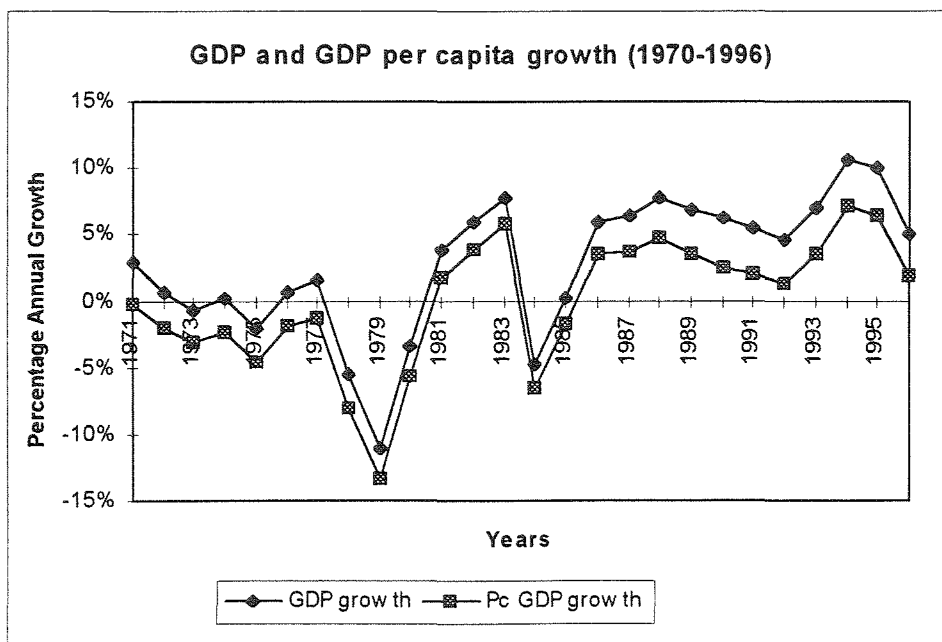


Figure 3.2 GDP and GDP per capita growth (1970-1996)



[4] Things get worse before they get better.

3.2 Fiscal adjustment in Uganda

Fiscal adjustment was among the policies of the Economic Recovery Program (ERP) which were announced on July 24, 1987 in the 1987/88 Budget Speech of Uganda (Kiyonga, 1987). Though the foundation was laid in 1987, major reforms did not take place until 1990. As at 1987, Uganda had a large public enterprise of about 130 SOEs and a large civil service to spend on which contrasted with a declining tax ratio as the source of finance. Fiscal adjustment measures implemented to overcome Uganda's fiscal crisis included; improvement in tax reform in the form of improved tax administration, reductions in corporate tax rates, adjustment of excise duties on alcoholic drinks, cigarettes and petroleum, increases in income tax thresholds and reductions in top marginal rates. They also involved public enterprise reform (restructuring, liquidation and divestiture of SOEs) and civil service reform which meant the down-sizing of the civil service. The Government has also been exercising expenditure-control and monitoring. Table 3.1 shows the chronological order of these fiscal reforms.

Table 3.2 Chronological order of Fiscal Adjustment Reforms 1987-1996

Year	Reform
1987	Announcement of reforms by the Ministry of Finance and Economic Planning.
1988	Formation of the Action Plan for Public Enterprise Reform and Divestiture (APPERD) to study the public sector situation and recommend relevant adjustment.
1989	Continuation of study.
1990	Introduction of user-fees and cost recovery on health and higher education
1991	Establishing of the Uganda Revenue Authority (URA) Restructuring of some SOEs.
1992	Retrenchment of 6,339 established civil servants Beginning of Public Enterprise reform process with 3 SOEs divested
1993	Retrenchment of another 7,241 civil service officers Retrenchment of 30,000 group employees from the civil service. Sale of 3 more SOEs.
1994	Reduction of the Corporate tax rate from 50% to 30%. Announcement of VAT introduction in 1996 and preparations (education and sensitising) for VAT. Sale of 8 more SOEs and abolition of Salaries for SOEs. Introduction of the Tax Identification Numbers (TINs) at the URA
1995	Reduction of Top marginal rates on personal Income, rationalisation of excise duty rates on beer, soft drinks and alcoholic drinks. 22 SOEs and their subsidiaries divested.
1996	Introduction of the VAT.

Source: Ministry of public service and Ministry of Finance & Economic Planning, Uganda.

3.2.1 Revenue - Enhancing Measures

The source of government revenue comprise of both domestic and foreign funds. Uganda's foreign sources include donor agencies like the World Bank and the IMF. Agencies like the Danish International Development Agency (DANIDA) and United States Agency for International Development (USAID) have also given grants to Uganda. Uganda has also received funds from other donor countries like the Netherlands, Norway, Denmark and the United Kingdom. It is imperative to note however, that aside from being unreliable, foreign funding of whatever source has conditionalities and makes the nation dependent and vulnerable to the donor. Because of reliance on foreign financing of its budget in the past, Uganda has accumulated a large ratio of debt stock to GDP in the process. This accumulation translates into increases in liabilities, interest repayments and armotisation. In this context therefore, revenue increasing reforms do not include measures to increase foreign funding but rather measures to increase domestic sources of revenue. Among the domestic sources, financing government expenditure through borrowing from the Central Bank of Uganda is also discouraged as it fuels inflation. Measures to increase domestic government revenue include tax reform and the introduction of user-fees on public utilities.

3.2.1.1 Tax Reforms in Uganda

As already mentioned, on the eve of fiscal adjustment, Uganda had a declining tax ratio. The tax base and tax-paying culture had disintegrated during the period of political instability and economic decline. Tax administration and collection was also inefficient under the Inland Revenue and Customs Departments of the Ministry of Finance and Economic Development. There were few revenue-collecting stations and taxpayers had to walk long distances to pay taxes. Consequently, tax avoidance, evasion, underdeclaration and smuggling rates were very high. Surveillance and monitoring of the taxpayers was also very difficult given the small number of collecting stations covering a wide area and consequently revenue collection was bound to be low. The tax structure was also very distortionary and complicated as it was characterised by numerous tax rates and high top marginal rates. Tax reform was therefore necessary and Uganda has since 1991 implemented a number of tax reforms which are highlighted below:

(i) Improvement in Tax Administration

Uganda's first major tax reform was in September 1991 when the Uganda Revenue Authority (URA) was formed in a bid to improve the tax administration basing on the argument that the civil service was corrupt and inefficient. Uganda was the second African country after Ghana to establish a revenue-collecting secretariat separate from the civil service. A better trained and better remunerated staff was employed to reduce corruption tendencies and increase revenue-collection efficiency. This improvement in tax

administration included identifying and registering of new taxpayers, intensifying tax collection efforts, strengthening tax legislation, plugging of existing loopholes in the tax system, collecting tax arrears as well as tightening of tax enforcement procedures. The objective was to increase revenue- collection to enable the country finance the recurrent and development expenditures thereby reducing the fiscal deficit gradually and consequently eliminating it in the long run.

(ii) Adjustment of tax structure and tax rates

Tax rates and top marginal rates were also adjusted as shown in the table 3.2 below. The corporation tax rate which was as high as 50% in 1992, was lowered to 30% in 1994 so as to reduce the negative impact of high corporation tax rates on investment level and to increase compliance. The Personal Income Tax base was also widened as Uganda has gone a long way to include fringe benefits like housing allowance, transport and lunch allowance in the taxable income. Prior to this reform, the fringe benefits were exempt from tax. The top marginal rate on personal Income Tax was reduced from 40% to 30% so as to reduce disincentive to work. Excise duty rates were also adjusted and rates which were as high as 350% on beer in 1972, have been declining over the years to less than 100% in the 1990s. Excise rates were reduced because an extremely high excise on locally produced goods would discourage production and hence strain the revenue base.

Table 3.3 Reforms in corporate, Pay As You Earn, and excise duties.

Tax head	Pre reform top bracket	Current top bracket
Corporation tax	50	30
Personal Income Tax	40	30
Excise duties	350	70

Source: Finance bills, Ministry of Finance and Economic Planning (MFEP), Uganda.

(iii) Streamlining of tax incentives

As a means of encouraging domestic industry, Uganda has for a long time been granting fiscal incentives to various industries, the main beneficiaries being the bicycle-assembling, soap and soft drinks industries. These incentives were in form of tax holidays and partial and full duty-waivers granted under the Second Schedule of the Tariff Code (which exempted diplomats as well), the Investment Code and Statutory Instruments (SI)[5]. Fiscal incentives

[5] SI s are instruments under the prerogative of the Minister of Finance and Economic Planning to grant tax exemptions and waivers as he deem fit.

are the most controversial subject in the Investment *vs* Revenue-base debate in Uganda. On one hand under the *infant-industry argument*, it is argued that incentives are necessary to propel infant industries to maturity as industries in their infancy can not favourably compete with already established industries as well as the import sources. On the other hand they complicate the tax system and strain the revenue base. Fiscal incentives are necessary for industrial growth but need not go on indefinitely as was the case in Uganda for some industries. At the same time the productivity of most of these subsidised industries stagnated. Besides, massive rent-seeking meant that particular industries benefited while others were sidelined creating unfairness in the tax system. The fiscal incentive structure in Uganda therefore needed to be streamlined.

Uganda has made several attempts at streamlining fiscal incentives and the process has been continuous. In 1988, duties on all imported industrial raw materials and capital goods were suspended. However in 1990 they were reintroduced at a rate of 10% and later abolished in 1992. Later in 1994, a remission of 10% was allowed for most raw materials not locally produced. The Investment Code (1991) however still continues to allow exemptions on imported machinery, equipment and construction upon application. Further the qualifying investors obtain exemption from corporate tax, withholding tax and dividends for up to six years. The incentive structure was streamlined in 1996 reestablishing the number of years and ensuring more impartial scrutiny of incentives.

(iv) Introduction of the Value Added Tax (VAT)

The VAT often referred to as the "money-machine", consonant with its ability to raise high revenue even it the initial stages, was introduced in Uganda in July 1996. VAT was first introduced in the World Fiscal History in 1950 and has since then spread across developed and developing countries alike. The exceptional performance of the tax in Indonesia, Korea, New Zealand, Portugal and Tunisia is well documented by the IMF (Tait, 1991). On the other side of the coin however, Kenya and the Philippines faced revenue shortfalls in the initial period after its introduction (ibid). Because of its neutrality attribute, it does not distort production incentives and the VAT on consumption does not distort choice between consuming today and consuming tomorrow (Gillis et al, 1987) and it has therefore been widely used to replace distortionary tax systems in many countries.

VAT in Uganda replaced the Sales Tax (ST) and the Commercial Transactions levy (CTL). Sales Tax was introduced in Uganda in 1969 and has since then till July 1996 been imposed

on both imported and locally produced goods. The Commercial Transactions Levy has been an on and off levy. When it was first legislated it was levied on trade but of the recent past till its extinction in July 1996, it was levied on services provided by professionals, restaurants and entertainment as well as commercial vehicles. Together these two taxes contributed on average between 25-30% of total recurrent government tax revenue. The VAT was expected to raise between 30-35% but in its initial year it contributed 26.99% to total revenue, a shortfall of -13.93 from the revenue realised from the combination of ST & CTL in the preceding year. Reasons for the shortfall included the fact that following the introduction in 1996, there occurred a one month strike by business-men which meant loss of revenue. This was expected considering that the VAT law in Ghana had just been repealed following opposition from the general Ghanaian business Community. Consequently the threshold was increased from 20 million Ushs to 50 million Ushs and the number of VAT registered taxpayers reduced to ease administration. The initial poor performance can also be attributed to the failure of the taxpayers to understand the intricacies involved in the VAT and poor record-keeping habits of the people. Another reason for the poor start was that other tax rates were raised in the same budget.

3.2.1.2 User Fees and Cost-Sharing in Uganda

User-fees were introduced in Uganda in 1990 after several earlier unsuccessful attempts. The policy of introducing user-fees was first floated in 1921 and later in 1939 and 1959. In all these attempts the idea was opposed vehemently because such an introduction would adversely affect the poor who in the face of abject poverty cannot afford. It also deters consumption of the basic goods; health and education and hence leads to a deterioration in the productivity capacity of the people of the country and in the long run leads to reduced output and stagnation of the economy. Historically, the provision of public goods especially health in Uganda was free of charge mainly provided by the state and to some extent by the religious organisations. Though free, these services were inadequate and substandard. For instance in the health sector there was lack of drugs and uncommitted medical personnel because of the meager salaries that the medical personnel received. In 1990 due to fiscal constraints, government embarked on cost-sharing in the health and education sectors as one the adjustment policies. The aim was to mobilise revenue and use the revenue from these fees to improve incentives for the staff and cover some of the administrative costs and consequently improve efficiency in service provision.

Cost-sharing has been introduced mainly in the health sector and to a smaller extent in the education sector particularly higher education. In the health sector, public hospitals and dispensaries have been the major thrust. Cost-recovery has been implemented at the district level

through District Health Teams and Health Unit Management Committees. In education, minimal cost-sharing has been effected in the national universities (Makerere and Mbarara Universities) as well as other National Tertiary Institutions. Subsidies and allowances to students that included text book and transport allowances were also gradually removed. As at 1996, post graduate education is also privately sponsored.

3.2.1.3 Review of fiscal achievements of revenue-increasing reforms

The effect of introducing user fees and cost-sharing/recovery can not be accurately quantified as revenues here-from are minimal and in most cases do not reach the government coffers as they are used to increase administrative efficiency at the local levels. The composition of tax revenue during the time of analysis did not register substantial change and over 80% of Uganda's revenue still derives from international trade taxes. The tax reforms have however contributed to the improvement in tax revenue collection. Uganda's Tax revenue as a ratio of GDP has been increasing especially after 1991 (see figure 3.3 below on Uganda's tax ratio 1960-1996). This ratio however, is still lower than that of most African countries. It is also below the average for sub Saharan African which is 10%. It was only in 1996 that Uganda made a tax ratio of 10.2%. Kenya and Cameroon's tax ratios for instance range between 18% - 24%. Zambia has a relatively high tax ratio, which ranges between 22-29%. Zimbabwe has an even higher tax ratio ranging between 24%-35% (World tables diskette, 1994). Table 3.4 shows a comparative presentation of global tax ratios for selected countries for selected years and it is evident that even with the current tax ratio of 10.2%, Uganda's tax revenue effort and performance still needs to improve.

Figure 3.3 Revenue as a ratio of GDP 1960-1996

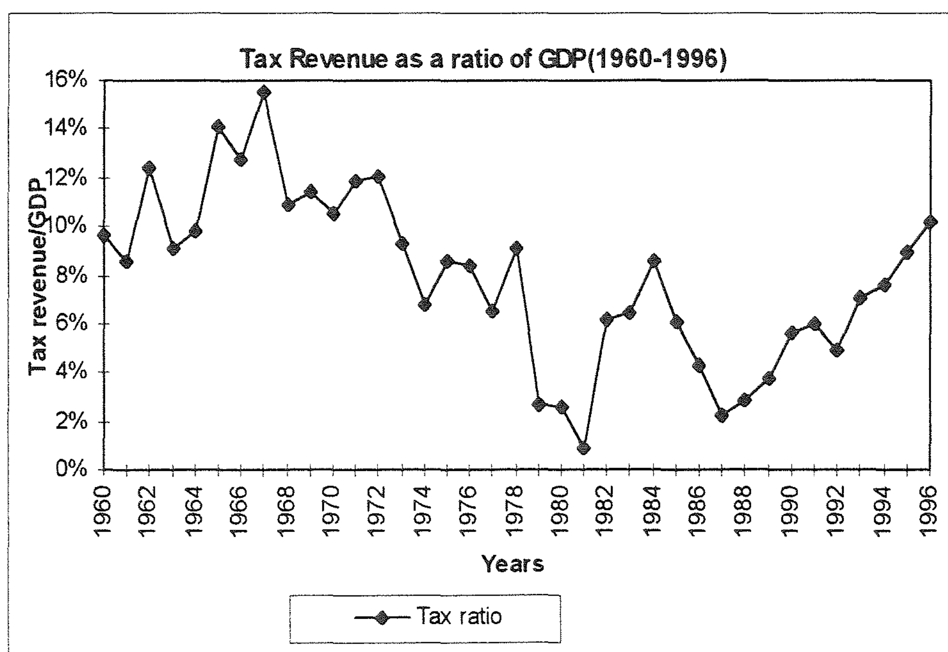


Table 3.4 Tax ratios for selected countries, for selected years

A:Developed countries	1970	1975	1980	1985	1990	1993	AVG'70-93
Belgium	35.57	40.83	43.77	46.42	43.86	43.69	42.40
Denmark	35.27	32.94	36.18	40.84	39.53	41.29	37.44
France	na	35.18	40.03	42.11	40.96	41.05	39.13
Germany.	24.60	26.59	28.92	30.40	28.91	31.78	28.38
Sweden.	29.45	30.81	35.17	40.42	44.16	38.52	37.34
The Netherlands	na	46.36	49.46	51.17	47.06	50.58	48.82
United Kingdom.	36.96	35.64	35.39	37.66	36.98	36.25	35.63
B: Developing Countries							
(i) Asia	1970	1975	1980	1985	1990	1993	AVG'70-93
Pakistan	na	13.04	17.03	16.75	19.98	18.94	16.67
Philippines	na	15.58	14.10	12.06	16.41	17.45	14.22
Sri-lanka	20.13	19.08	24.14	23.95	22.79	21.04	21.79
(ii)Africa	1970	1975	1980	1985	1990	1993	AVG'70-93
Ghana	na	15.33	6.88	11.75	13.16	18.34	11.56
Kenya	na	18.89	22.64	20.20	24.30	23.84	21.28
Malawi	na	17.64	23.43	23.70	24.85	24.85	21.46
Tanzania	na	22.29	20.27	16.70	na	na	19.42
Uganda	na	9.27	3.16	9.47	5.59	7.08	7.68
Zambia	na	29.42	25.81	22.07	na	na	24.09
Zimbabwe	na	na	24.10	31.37	31.94	na	28.72

Note*The tax ratio is calculated by dividing recurrent revenue by total GDP at current market prices.
*The averages are for only the years when data is available.
*na means data not available for those years
Source: The world bank, World Tables diskettes, 1994

3.2.1 Expenditure-cutting Measures in Uganda

Cutting government expenditure included public enterprises reform, down-sizing of the civil service as well as demobilsation of soldiers. Uganda like most developing countries had a large number of State Owned Enterprises (SOEs) at the time of adjustment. The reason for this is historical. Colonial governments put in place hierachically-organised and centralised government systems which participated in all spheres of the economic life of the country. Since the colonial days, the Uganda government had the monopoly over the provision of most social goods and services and was also the biggest employer. The nationalisation policies undertaken in 1966 and 1972 also led to an expansion of the public sector and consequently SOEs have not only engaged in the provision of social goods and services but have also joined the private sector in the agriculture marketing, industry and the banking sector. This large public enterprise sector was complemented by a large civil service and a large army to produce high government expenditure.

3.2.1.1 Privatisation, restructuring, divestiture and liquidation of SOEs.

Expenditure on SOEs has been cut by privatising, divesting and liquidating most of the SOEs through trade sales, auctions and public floatations. Apart from complementing the private sector, efficient and profitable SOEs are expected to boost the revenue of the country through remission of surpluses to the treasury. Between 1950-1970 SOEs in Uganda functioned well and played a dynamic role in the development of the country. However, during the period of political upheavals and economic decline, the public enterprise sector disintegrated due to poor legal and administrative principles. Since then, the performance of Uganda's SOEs has not only been inefficient and unimpressive but also burdensome to the already constrained budget. Indirect and direct subsidies are still as high as 5 % of GDP. It is because of reasons such as these that the government plans to privatise at least 85% of its 130 SOEs by 1998. These will include the privatisation of the water, telecommunications and electricity utilities. By December 1996, 63 SOEs including their subsidiary units had been divested. Of these, 19 were divested through Asset Sale, 15 through Share Sales, 7 Auctions, 4 Joint Ventures, 1 lease, 3 repossessions and 14 liquidations (Background to the Budget, 1997/98). Strict financial controls on all SOEs and elimination of direct and indirect subsidies to commercial SOEs and phasing out of subsidies to non commercial SOEs is also underway.

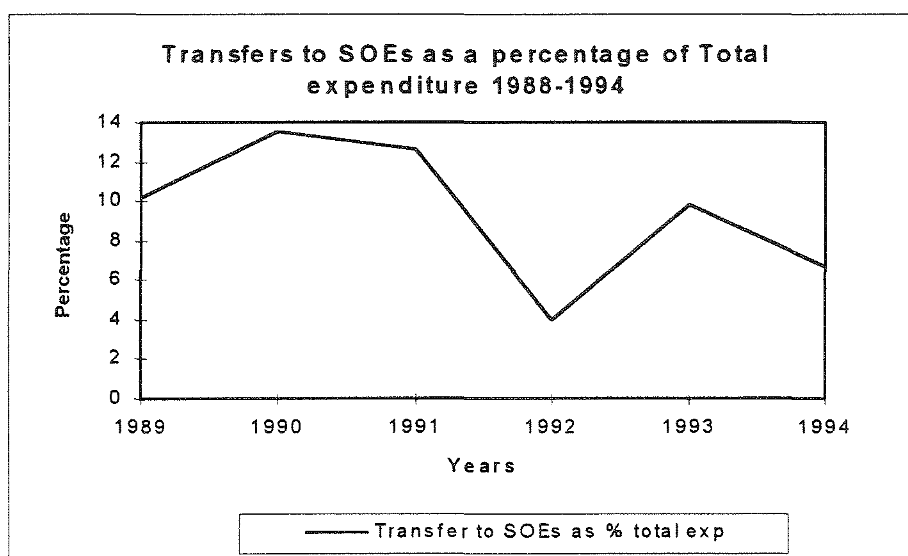
The rationale for public enterprise reform in Uganda was to strengthen and rationalise the performance of the SOEs through divestiture of the least profitable and directing spending to the potentially profitable ones. The economic justification of privatisation is not only to reduce government expenditure on SOEs and hence reduce the fiscal deficit, but also to improve productive efficiency through exposing SOEs to competition which leads to increases in out put and growth. The list of the divested companies that have resumed and revived production include to mention but a few; two major cement industries, one steel works, two large textile firms, two tea estates, a printing press, fishing companies, distilleries, and various hotels. Unlike the experience in many countries, Uganda did no face considerable political set back in implementing public enterprise reform and was able to find willing buyers for most of the SOEs. This has been mainly due to improved political situation in the country which has restored confidence in potential investors. Public Enterprise Reform in Uganda has led to a slow but sure decline in government expenditure on SOEs with 1992 depicting the biggest drop of 4.0% of total government expenditure.

Table 3.5 Subsidies to SOES 1988-1994-values in million Ushs

	1989	1990	1991	1992	1993	1994
Subsidies to SOEs	1,258	4,088	5,280	1,405	3,057	3,400
% to total expenditure	10.2	13.5	12.6	4.0	9.8	6.7

Source: Statistics Department, MFEP.

Figure 3.4 Transfers to SOEs as % of total government expenditure (1988-1994)



3.2.1.2 Civil Service Reform

The civil service has been downsized as a means of reducing the wage bill. At the time of adjustment the civil service was overstaffed. In 1920 when the structure of the Uganda civil service was first established, it was a small body with minimum responsibilities. With time however, the responsibilities of the civil service increased and so did its size. In 1991, the civil service employed 320,000 employees, with 29 ministries and 15 departments. This made it the biggest employer and employer of the last resort. The growing size of the civil service can also be attributed to the collapse of the East African Community in 1970 which meant that the Uganda civil service had to absorb the employees who were laid off from this defunct body. Another reason for this expansion is political. Politicians have often "created" jobs in the civil service as a way of rewarding their political allies (Onecan, 1994). Considering that since independence Uganda has had ten (10) political regimes, the civil service at the time of adjustment was bound to be overstaffed.

Worth mentioning also is the fact that due to the big size of the civil service, there were inefficiencies, duplication of work, massive rent-seeking, general sloppiness, lack of innovation and motivation as well as absenteeism. The civil service pay roll was also filled with ghost workers[6]. The civil service therefore called for scrutiny and down-sizing so as to reduce the wage bill and improve efficiency. Hence at the beginning of 1990, Uganda was among other African countries that embarked on civil service down-sizing exercise. Other countries included Zimbabwe, Sierra Leone, Kenya, Tanzania, and Ethiopia. Down-sizing in Uganda took place as follows:

Table 3.6 Sequencing of the down-sizing exercise

June 1992	6339 established civil servants were retrenched in Kampala and Entebbe.
July 1993	7241 civil service officers were retrenched
July 1993	30,000 Ministry group employees were retrenched.

Source: Ministry of Public Service.

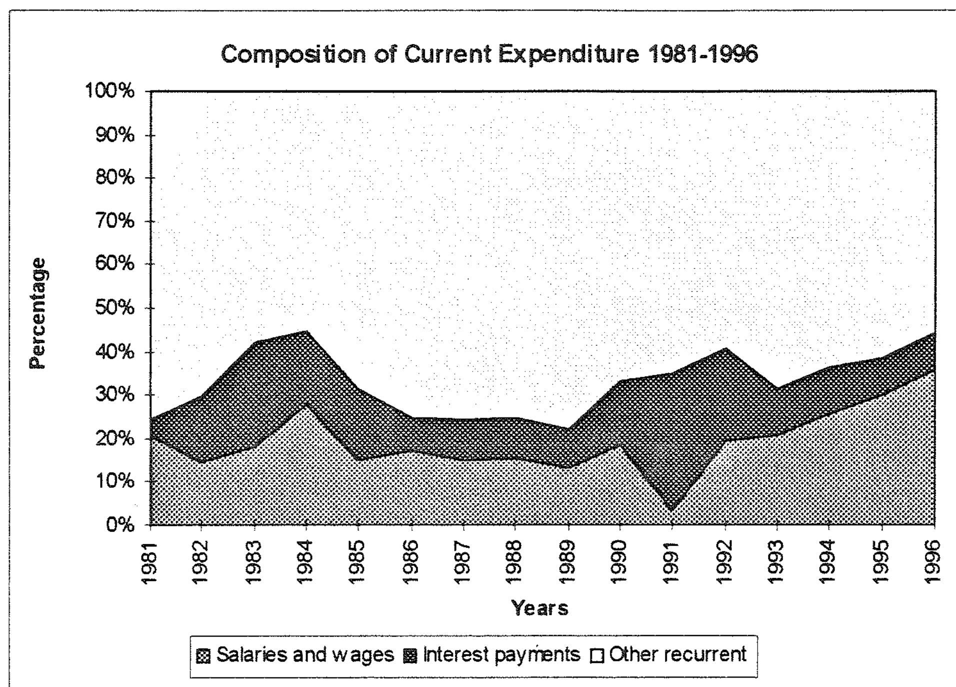
The military was also downsized by 50,000 soldiers. After down-sizing, the names of the remaining staff were computerised in the Personnel Management Information System (PMIS) so as to minimise future inclusion of the "ghost workers". Recent developments show that from 1996, there has been a recruitment freeze and consequently the size of the civil service dropped by 4% in the last quarter of 1996 (Background to the Budget 1996/97).

3.2.1.3 Review of fiscal achievements of expenditure-cutting measures.

Unlike public enterprise reform which succeeded in reduction of expenditure on SOEs, retrenchment did not lead to a reduction of expenditure on the wage bill as wages were raised following retrenchment. Although Tanzi (1993) warns against increasing wages after downsizing, as this erodes the would - be fiscal benefit of such a measure, Uganda's wages were so low and needed an upward adjustment. There was also pressure from employees who demanded a living wage commonly refereed to as the "food basket". Salaries were increased by 22% across the board in 1990 and later by 33% in 1992. Consequently the wage bill which was 43 billion Uganda shillings (Ushs) in 1991/92 had risen to 220 billion Ushs[7] in 1996/97. Compensation of the retrenched staff also cost the government US$ 13.4 million for the period 1991-1995, to supplement the donor funds which were 18.59 million US$. (Uganda Civil Service Reform (UCSR): Status Report 5; 1995). All these costs contributed to undermine the expected fiscal effects of retrenchment.

[6] "Ghost" in the sense that the names existed on the payroll but the person was not an employee of the civil service. The salaries of these "ghosts" would go to the person who ingineered the ghost names.
[7] In real terms (CPI 1990=100, the increase is 9.14%)

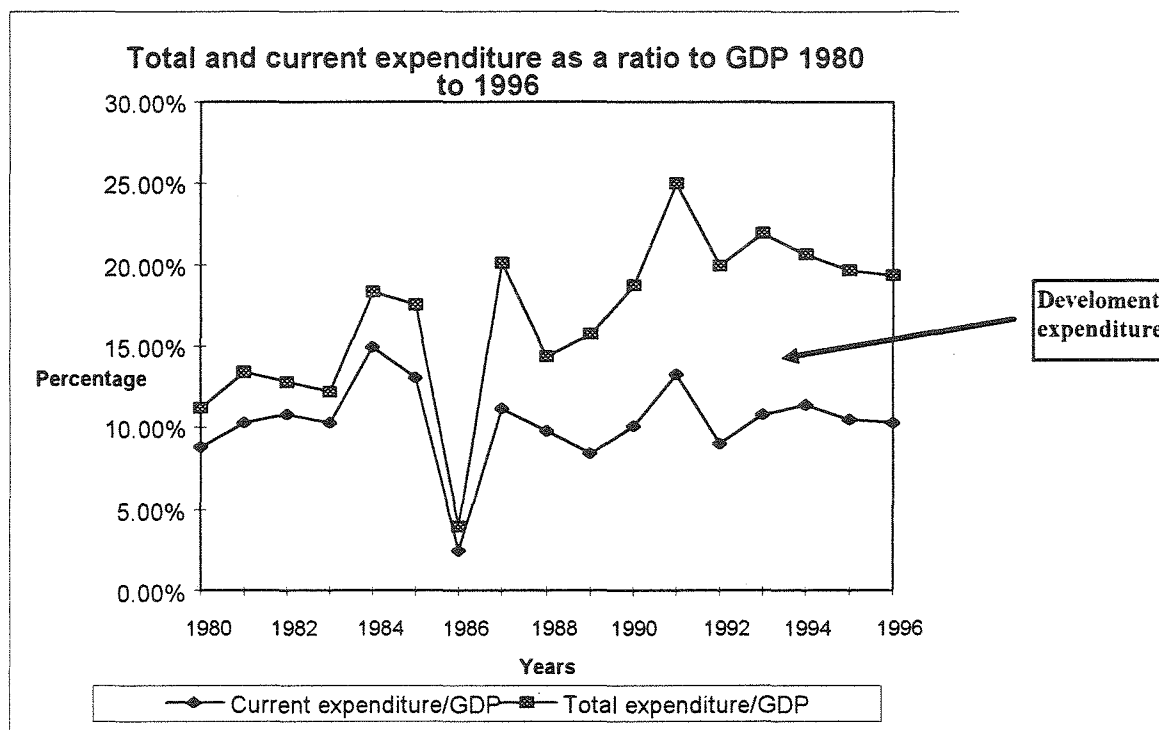
Figure 3.5 Composition of current expenditure before and after fiscal adjustment



The composition of current expenditure is shown in the graph above and it evident that the contribution of the share of wages and salaries increased after fiscal adjustment in 1991. Interest repayments were at their highest in 1991 and 1992 as Uganda had to pay large interest on past loans. After 1992 however, interest repayments declined as did recurrent-others.

Current expenditure as a ratio of GDP which was taking an upward trend between 1989-1991, started declining in 1992. Total expenditure as a ratio to GDP was however higher in the period 1991-96 than it was in 1980-88, though it shows a declining trend after 1993. There is a big disparity between recurrent and total expenditure especially after 1991, implying that more development expenditure has been incurred since the implementation of fiscal adjustment as can be seen in the graph below. This increase in the development budget has been matched by an increase in grants (see figure 3.7) which contribute over 80% to this budget.

Figure 3.6 Total and current expenditure as a ratio to GDP 1980-1996



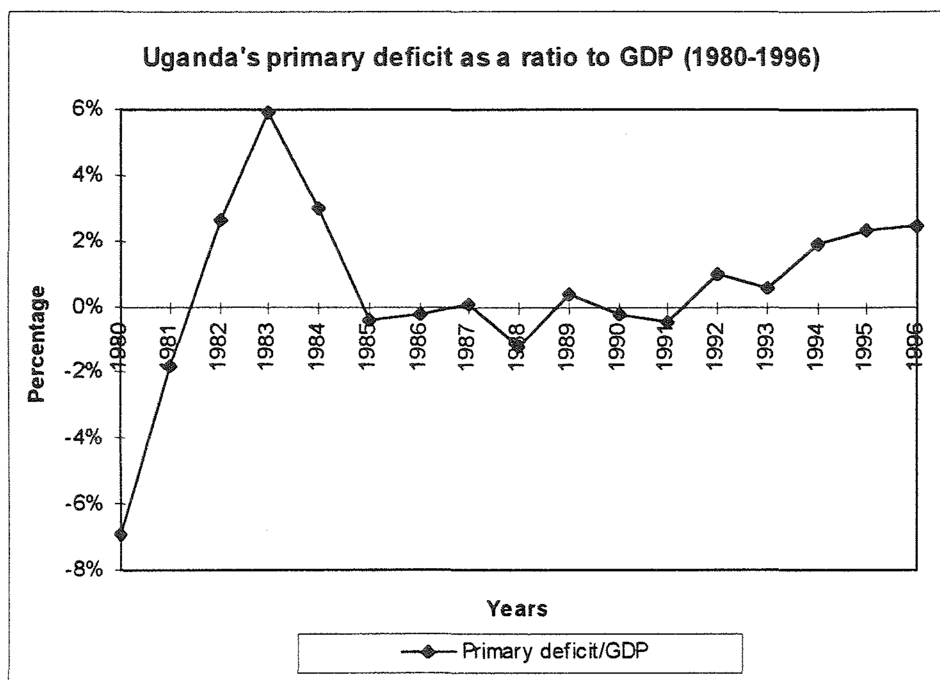
3.3 Impact of fiscal adjustment measures on the fiscal deficit

The study on fiscal adjustment and growth would not be complete without first making reference to the impact that fiscal adjustment has had on the deficit. The benefits to growth that accrue from fiscal adjustment also derive from a reduction in the fiscal deficit as well as changes in the financing of the remaining deficit and therefore it is imperative to review what has happened to the deficit following fiscal adjustment; the subject matter of this section.

3.3.1 Impact on the primary surplus/deficit

The primary fiscal balance shows the extent to which government recurrent revenue (less grants from abroad) covers current expenditure and is measured as the current fiscal balance minus interest payments. It improved due to fiscal consolidation and unwavering efforts to prioritise public expenditure since 1990 and has moved into surplus of 2.4% of GDP as compared to a deficit of -2.1 in 1988. Therefore government's savings on its budgetary operations have improved as shown in the graph below. It is important to note however that the improvement in the primary surplus is mostly attributed to the increased revenue effort than the expenditure cutting side.

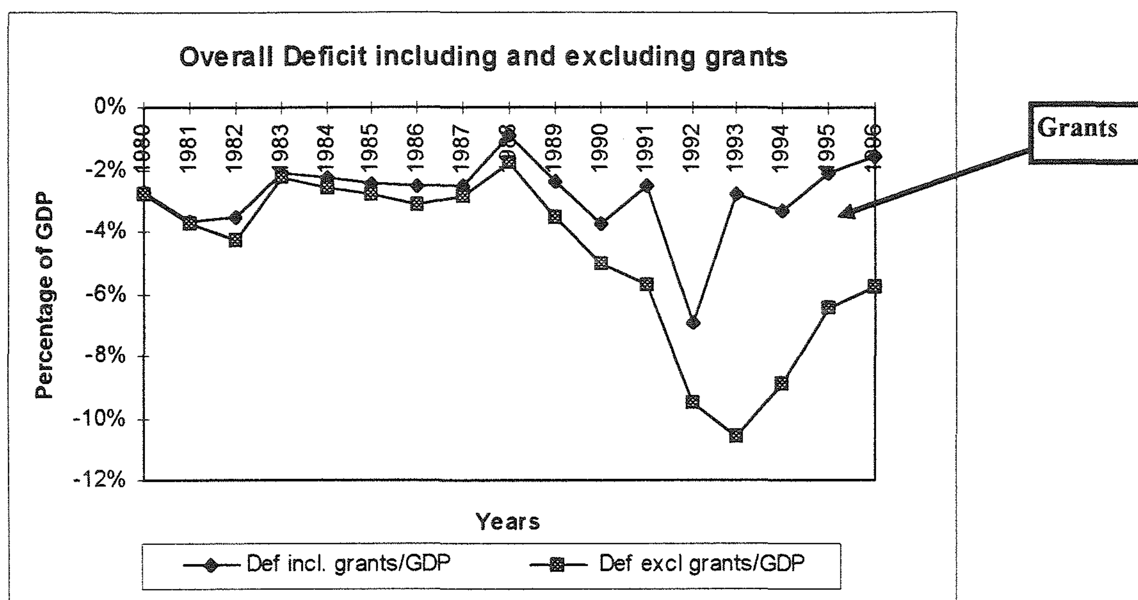
Figure 3.7 Uganda's primary deficit as a ratio of GDP (1980-1996)



3.3.2 Impact on overall deficit (excluding and including grants)

The overall deficit excluding grants as a ratio of GDP is measured as the difference between current revenue (excluding grants) and total expenditure (including both current and development expenditure) **CR-(CE+DE)** where CR is current revenue, CE, the current expenditure and DE the development expenditure. The overall deficit including grants is measured as the difference between current revenue (including grants) and total expenditure (including both current and development expenditure); **(CR+Grants) - (CE+DE).** The overall deficit including grants has declined while the deficit excluding grants increased. This implies that and is evident on the graph that Uganda has received more grants to finance her expenditure especially after 1991. The deficit excluding grants has also started showing a declining trend especially after 1994 but is higher than for instance it was in 1988.

Figure 3.8 Overall deficit including and excluding grants



3.3.3 Financing of the deficit

The financing of Uganda's deficit has also undergone changes since fiscal adjustment. Changes in the way fiscal deficits are financed also have a bearing on the macro economic stability and future growth of the economy. Uganda's biggest source of finance has been foreign borrowing which has continued to contribute over 70% since 1991. This increase in external financing is an indication that this financing is to assist the country in the undertaking of the structural reforms as well as avoid inflationary bank borrowings. Borrowings from the central Bank have declined and since 1992 they turned negative implying a build up of government net savings with the banking system. This implies that Uganda's deficit is no longer financed by monetary expansion. Owing to the fact that the secondary money-market of bonds and securities is still rudimentary, the domestic non-bank sources of financing the deficit have continued to be low (8%). This has been so inspite of financial liberalisation and freeing of the interest rate.

3.4 Conclusion

This chapter has first and foremost given a historical background of the Ugandan economy and the growth trend for the period 1960-1996. It is evident that Uganda underwent a period of economic stagnation between 1971-1985 and is still striving to get back to the level of 1960-1970. This has been the strategy since 1987 and various recovery policies have been pursued among which was fiscal adjustment. The various fiscal adjustment measures that have been implemented and their fiscal achievements have also been reviewed. It is however too soon to judge the success of some

of these policies especially those that have been in place for a short period of time like the VAT and the streamlining of the fiscal incentives. Nevertheless, it can be concluded that Uganda's fiscal deficit (including grants) declined after fiscal adjustment. However, the main contributors to the decline in the deficit have been the revenue-increasing measures. Expenditure-cutting measures were less successful because wages and salaries were raised following downsizing. It further boils down to the fact that expenditure-cutting is a complex exercise that can not be accomplished by economic justification alone but also by political considerations. Monetary financing of the remaining deficit was eliminated since 1992.

CHAPTER FOUR

FISCAL ADJUSTMENT AND GROWTH IN UGANDA

4.0 Introduction

This chapter will review the impact that fiscal adjustment measures have had on Uganda's growth. An analysis of the impact of fiscal adjustment measures on the investment level, labour, productive and X- efficiency and macro economic stability will be made in section. Further the growth trends of the various components of Uganda's GDP for the period 1986-1996 will be analysed and the impact that various fiscal adjustment measures have had on them reviewed. The first part of this chapter will review fiscal adjustment and the growth prospects of Uganda's economy.

4.1 Fiscal Adjustment and Uganda's growth prospects

It was hypothesised in the introductory chapter that high and persistent fiscal deficits impact negatively on the growth prospects of the economy and therefore need to be reduced. Various studies carried out some of which have been elaborated in the Review of Empirical Studies in Chapter Two established that persistent fiscal deficits have negative implications for growth for a number of countries. Aside from the negative impact of inflation that results from monetisation of deficits, fiscal deficits may crowd out private investment. This gives the justification for countries to implement fiscal adjustment measures so as to improve their fiscal health and follow the path of sustainable growth. It was also established in the previous chapters that aside from reducing the deficit, fiscal adjustment is necessary to rid the economy of inefficiencies and distortions that hamper the growth of the economy.

Fiscal adjustment remains a high priority for developing countries concerned with achieving growth. Some of the negative impact of the fiscal deficits is translated into inflation caused by deficit monetisation and it has been established that inflation has had anti-growth effects on Uganda's economy. The strategy of financing the deficit by foreign borrowing so as to reduce inflation tendencies that emanate from deficit monetising increases Uganda's indebtedness. The dangers of increased indebtedness include increased interest repayments; high debt service ratios to exports and GDP as well as conditionalities that come along with the borrowing packages not to mention the negative impact of a high debt overhang on long-run investment and growth.

Already by 1994, Uganda's external debt as a ratio to exports and to GDP had reached alarming rates. Debt Stock as a ratio of exports was 900.4%, while debt service as a ratio of exports was 50.4%. In relation to GDP, the debt stock was 80.5% of GDP while the debt service ratio to GDP was 4.5%. Due to debt-relief and rescheduling of some loans, the debt stock ratio to exports declined to 462.8% and the debt service ratio to exports declined to 17.3% in 1996. In relation to GDP the debt stock declined to 60.1% while the debt service ratio to GDP was 2.2% (Background to the Budget, 1997/98). Despite this declining trend, this external debt ratio is still very high. There is an indication that Uganda may not be able to service and fulfill her debt obligations in future. Therefore, despite availability of foreign financing, fiscal austerity is necessary for Uganda so as to reduce future indebtedness and future inhibitions to growth. In addition, reliance on foreign funds has been unreliable and on many occasions led to resource shortfalls. It is also the objective of the Uganda government to "achieve an independent, integrated and self sustaining economy"[8]. The fiscal adjustment measures that Uganda has implemented to reduce the fiscal deficit, also have an impact on growth and these effects will be reviewed in the next part of this chapter.

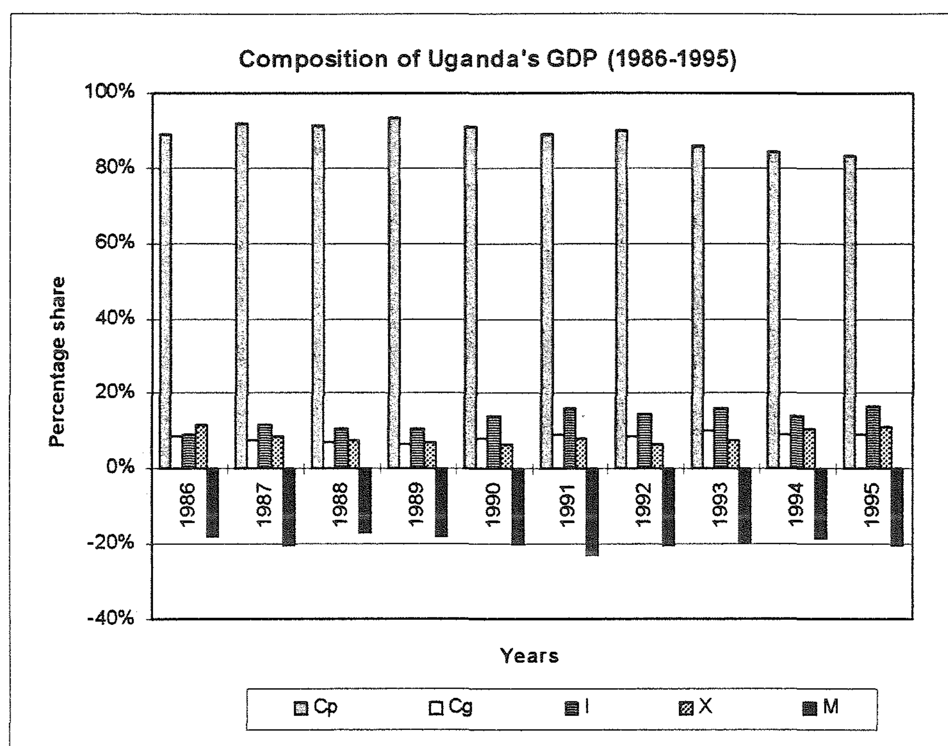
4.2 Uganda's Growth (1986-1996) and the impact of Fiscal Adjustment

Fiscal adjustment employs measures whose theoretical underpinnings were reviewed in Chapter Two and their practice in Uganda elaborated in Chapter Three. These measures apart from their impact on the budget deficit, they too have implications on growth. I will analyse the effects of the fiscal adjustment measures and how they have affected the sources of growth with emphasis on capital/investment, *X*- and productive efficiency, the labour input and macro economic stability. I will also review the various components of Uganda's National Income to evaluate what has driven Uganda's growth while showing the possible contribution (or de-contribution) to their growth emanating from the fiscal adjustment measures. This analysis will cover a period of 10 Years (1986-1996). Taking into account that major fiscal adjustment started in 1990, the period 1986-89 will be my reference of the period "before" while 1990-96 will be the period "after".

Figure 4.1 shows the various shares of the components of Uganda's Gross Domestic Product (GDP) for the period 1986-1996. At a glance, the share of Private Consumption to GDP is well over 80% for all the years, Government Consumption contributes 8-10%, Investment 9-17%, Exports 7-12% and Imports -17- -21%.

[8] This is included in the 10-point-program of the current Government.

Figure 4.1 Composition of Uganda's National Income (1986-1996)



Notes:
Cp = Private Consumption (Over 80%)
Cg = Government Consumption (8%-10%)
I = Investment (9%-17%)
X = Exports (7%-12%)
M = Imports (17-21%)

4.2.1 Fiscal adjustment and the Investment level.

Figure 4.2 and table 4.1 show the developments that have taken place in the level of private, public and total investment between 1986 and 1995. As the public investment ratio of GDP declined especially since 1991, (due to fiscal adjustment measures notably due to privatisation and liquidation of SOEs in the subsequent years), private investment increased. Total investment as a ratio of GDP also increased slightly in 1991 and stabilised to range between 14.3% and 16.8% for the period 1991-1995. Fiscal adjustment measures that affect investment included the reduction of the corporation tax from 50% to 30%, the purpose of which was to increase corporate profitability and hence reduce disincentives to investors.

The other fiscal measure, cuts in public investment however often have crowd out effects on private investment. Although ".... it is the African experience that public investment crowds in private investment ... " (Grosch & Mukandala, 1994) and therefore a cut in public investment would imply a decline in private investment, Uganda's experience shows that private and total investment share to GDP increased following public expenditure-cuts. The share of private investment to GDP which was 5.56% in 1989 had almost doubled to 11.03% in 1995 while the share of total investment to GDP which was 10.89% in 1989 had risen to 16.78% in 1995. This may well imply

that in Uganda public expenditure which has been cut so far does not have "crowd-in" effects on private expenditure. Uganda has so far privatised only those utilities that produce output that competes with the private sector. Utilities that are infrastructure-related which complement the private sector are yet to be privatised in 1998.

Figure 4.2 Public, Private, Total Investment and GDP growth 1986-95

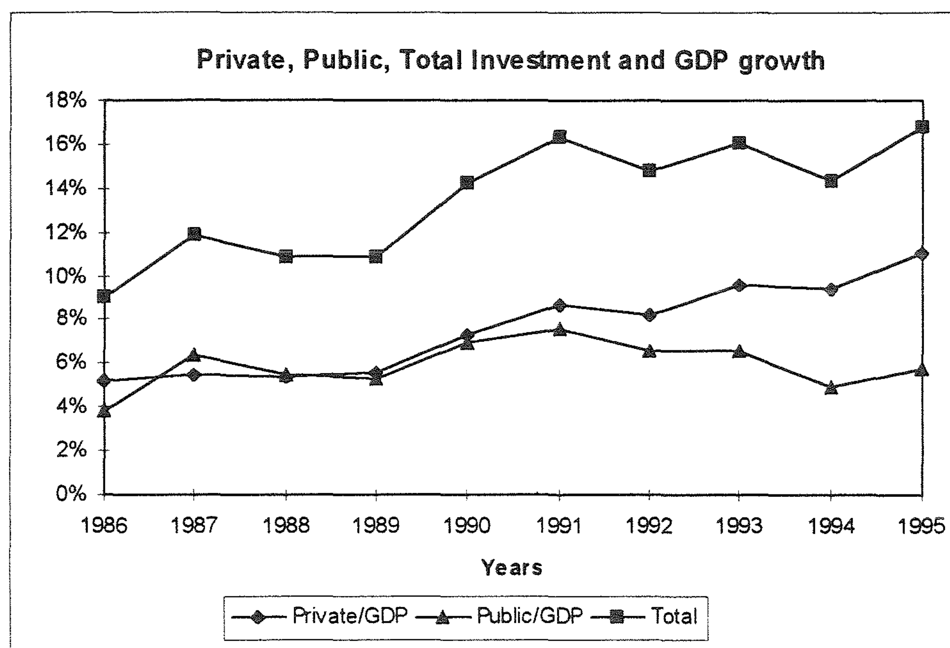


Table 4.1 Public, private and total investment in Uganda 1986-1996

Year	Private	Public	GDP	Private/GDP	Public/GDP	Total I/GDP
1986	63,548	47,567	1,230,425	5.16%	3.87%	9.03%
1987	72,013	83,303	1,309,143	5.50%	6.36%	11.86%
1988	76,683	76,839	1,411,418	5.43%	5.44%	10.88%
1989	83,910	80,447	1,508,789	5.56%	5.33%	10.89%
1990	117,503	110,627	1,602,094	7.33%	6.91%	14.24%
1991	147,048	128,884	1,690,301	8.70%	7.62%	16.32%
1992	145,884	116,500	1,768,564	8.25%	6.59%	14.84%
1993	181,068	123,773	1,893,391	9.56%	6.54%	16.10%
1994	197,479	102,354	2,093,706	9.43%	4.89%	14.32%
1995	254,069	132,465	2,302,892	11.03%	5.75%	16.78%

Source: IFS and Statistical abstract MFEP, 1996
GDP and Investment values are real values GDP deflator 1990=100

There are however a number of other factors that have contributed to increased private investment, thus raising the private investment and total investment ratio to GDP. Private investment in Uganda has increased since 1991 due to a number of other factors which include:

(i) The Return of the Departed Asians Properties: The Asian businessmen and investors who formed the biggest number of investors in Uganda at the time of independence had been expelled from Uganda and their property confiscated in 1972. The new Government on the advice of the IMF and World Bank saw the need to return the properties as a means of improving the investment climate and restoring investors' confidence. Various studies carried out on the determinants of investment level in Uganda revealed that the confiscation of the Asians' Properties was a major scare to investors in Uganda especially the foreign ones. The return of their property which started in 1991 has now been completed with 3,300 properties which ranged from small retail shops to large industrial concerns returned to the Asian community. This too improved the investment climate.

(ii) Establishment of the Uganda Investment Authority: Further, the enactment of the Uganda Investment Code and the subsequent establishment of the Uganda Investment Authority (UIA) in 1991 to facilitate and promote investment in Uganda is another contributive factor to improved investment levels. The UIA reports increasing foreign investor interest in Uganda. The investment climate has therefore improved a great deal as compared to what it was before fiscal adjustment and it is projected that by the turn of the century, Uganda could see annual investment inflows of about US$ 30-40 millions which is expected to increase to US$ 100 millions by 2005. (World Bank, Uganda; Growing out of Poverty, 1994).

(iii) Financial Liberalisation: Financial liberalisation was embarked on in 1992 under the Financial Sector Reform Program (FSRP). The purpose was to enhance the role of the financial sector in mobilising resources from the multitudes of small savers to the smaller group of investors. The interest rates were freed with the objective that savings would rise, leading to an increase in investment and consequently growth. Following these financial sector reforms, gross domestic savings increased from -2% of GDP in 1990 to between 5%-13% of GDP for the period 1992-95. Although not all savings are translated into investment, the availability of savings is a contributive factor to increased investment.

4.2.2 Fiscal adjustment and the Quality & Quantity of Labour Force

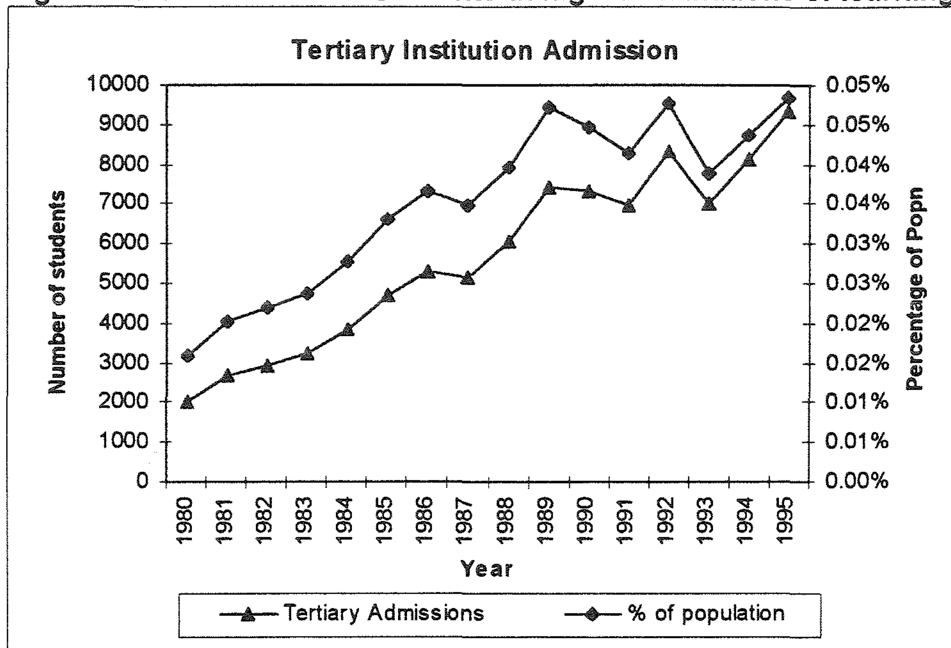
The impact of fiscal adjustment on the labour input will be assessed on the basis of its effect on health and education, both important contributors to the quality and quantity of the future labour force. Budget cuts and the introduction of user fees on health and education as those incurred in fiscal adjustment invariably affect and deter the consumption of these items that are essential for long-term human resource development, productivity capacity and consequently output growth and this can lead to stagnation of the economy in the long run. A deterioration in the human resource

conditions negatively affect private savings, labour supply and hence future growth is likely to be adversely affected. It was however intimated in the conceptual framework that fiscal adjustment need not be contactionary even in the short run in the absence of market rigidities and if it is efficiently implemented.

In the education sector, cost-sharing was only introduced at National Institutions of Higher Learning (Tertiary education) and even then, it was gradual and so far very minimal covering mainly the removal of subsidies to government sponsored students on text books and transportation to their home areas as well as the introduction of payment of minimal costs at admission. Uganda recognises the need for providing free education at the Primary School level because of its high social benefits and Universal Primary Education (UPE) will be undertaken in the near future. This explains why cost-recovery was only introduced at higher levels of Education. The response of Higher Education level in Uganda to cost-sharing has been in form of a slight increase in admissions in the National Universities and other national tertiary institutions especially since 1993. Aside from the government sponsored students, the national universities currently allow privately-sponsored students as well as private evening-class attenders.

Further, the private sector also joined in the provision of university education, a territory that had since colonial times been the responsibility of the government. This was the outcome of the improved incentive structure and the recognition that the role of the state must diminish from being the sole provider to a facilitator by encouraging private initiative in all sectors. Consequently, Uganda currently has 7 universities as compared to only one that existed in 1987. These factors have increased the number of students at the higher institutions of learning despite fiscal austerity measures. The graph below shows the rate of admissions to tertiary government institutions where cost sharing was introduced. It is evident that the number of admissions which was steadily increasing since 1980, started showing a different trend after 1989, and the lower part of the J curve is apparent since 1992 while a steady increase sets in again after 1993. This implies an initial drop in the admission followed by an improvement. Although concrete data on private institutions which are more and have more enrollments is unavailable, there is evidence that the number of private tertiary institutions established in the recent six (6) years has been high and so has been the admission in these institutions.

Figure 4.3 Admissions of Students at higher institutions of learning



Note: These numbers show only government institutions. Data on private institutions is unavailable.

In the health sector, Uganda's government expenditure on health is just 2% of GDP as compared to the sub-Saharan average of 5%, and yet the country is still plagued with preventable and curable diseases, like malaria, tuberculosis and AIDs that require more expenditure on health facilities and health education. Aggregate health indicators of infant mortality of 122/1,000 and life expectancy of 48 years (Statistical Abstract, 1996, MFEP) also point to the fact that Uganda's health situation is among the poorest in the world. Various studies on the impact of cost-recovery recommend that health services should continue to be provided freely by the state (Mamdani, 1990). The Planning Unit of the Ministry of Health reported a decline of out-patient cases from 10,674,142 (63.1% of the population) patients in 1991 to 5,246,539 (27.2% of the population) patients in 1995 (Statistical Abstract, 1996 MFEP: 106). This decline in out-patients may be due to the reduced health consumption following cost recovery or it could well be due to improved service provision that meant fewer visits to the hospital. Mugisha (1995) argues that the decline in number of out-patients is due to the fact that free provision encouraged wastage of resources as healthy people also made frequents visits to the hospitals, while the fewer visits following cost recovery meant that only the sick sought medical attention.

More quantitative indicators about Uganda's health profile are not available for further analysis but a qualitative analysis shows that on the positive side, cost recovery on health in Uganda has improved service provision, increased availability of drugs, better hospital attention and treatment in the public hospitals. Cases of long queues of patients and reluctant and absentee doctors in national hospitals have reduced. On the impact on the poor Turinde (1997) argues that even before

cost recovery was introduced the poor still used to pay for health only that it was in form of unofficial bribes. Therefore it was just as costly for the poor then to receive medical attention like it is with the cost recovery scheme. Notwithstanding all these arguments, the cost-recovery scheme continues to have negative effects on the rural poor who have been marginalised from benefiting from government expenditure in Uganda. A study done by Muwonge (1996) on the determinants of the demand of health services in Uganda revealed that there is inequitable distribution of health care consumption between the rural poor and the urban population and that cost-recovery affected mainly the rural poor, who aside from the long distances they had to travel to the public hospitals could not afford the hospital dues under the cost recovery scheme.

4.2.3 Fiscal Adjustment and Poverty levels

Having reviewed the impact of fiscal adjustment on the labour force, a review of the impact on poverty level is also imperative at this stage. Increased poverty levels impact negatively on growth. An increase in the number of poor people in a nation reduces the per capita income level[9]. The fiscal adjustment measures involve a reduction in aggregate demand, increased unemployment, and reduced social service provision and consequently lowered the standards of living of many people especially the rural population and the urban-poor implying additional deprivation on the poor and worsening of their welfare. Because of the downsizing of the civil service and the army and the privatisation of public enterprises, people lost their jobs. Following fiscal adjustment, poverty levels and unemployment intensified in Uganda (Syahuka: 1996; 57). In the civil service almost 50% of the staff were retrenched while 50,000 soldiers were demobilised. The retrenched joined the poverty-stricken class of the population. Uganda was ranked among the poorest countries in the world and the 13th poorest in Africa (World Bank Report 1994). In 1994, 55% of the Ugandan population were counted as poor below the WB's poverty line and although the World Bank (1995), reports that hard-core poverty reduced, most poverty indicators show a deterioration. The poorest 10% of the population consume barely more than one-third of the amount consumed by the people at the poverty line (WB, Uganda: Challenges of Growth and Poverty Reduction, 1995).

Further, the gap between the rural and the urban has widened (Ochieng, 1995). It is also true that the poor continue to suffer from the effects of fiscal adjustment especially cost recovery in health and cost sharing in education. The increasing trend in higher education enrollments is dominated by the urban-rich and middle-income class while the rural- and urban-poor are fewer. Without considerable safety-nets for the vulnerable and poor, the poor will continue to rotate in the vicious

[9] It is also counter-argued that even if poverty levels increase, as long as the incomes of the rich increase proportionately, per capita income level will not be negatively affected. This would imply growth with hyper-skewed income distribution that grossly hurts the poor and eventually leads to a decline in the nations welfare and is termed as *"immiserising growth"* by *Jagdish Bagwati* among others.

circle of poverty. The Program to Alleviate the Social Costs of Adjustment (PAPSCA) was established as one of the safety nets for the poor but has not led to poverty reduction so far due to the structural difficulty of providing for the large population of the poor who are unevenly spread over a big expanse of geographical area. The role of NGOs has also been present with minimal impact on the poverty levels.

4.2.4 Fiscal Adjustment and Efficiency

The contribution of *X*- and productive efficiency to growth that comes with fiscal adjustment can not be easily quantified in the case of Uganda owing to unavailability of the relevant data. The efficiency with which factors of production are utilised is a major contributor to growth (Fischer, 1992) Inefficiencies, low productivity and low capacity utilisation as those caused by inefficient SOEs do hamper growth and despite continued subsidisation from the government, Uganda's SOEs continued to record stagnation. Workers in Public enterprises are less motivated and the degree of innovation is low. Further, political patronage in public enterprises in Uganda obstructed efficient operation of the public enterprises making private enterprise more efficient. Exposing SOEs to competition improves their efficiency and profitability.

Although the divestiture of most SOEs was feared to bring about a scarcity crisis, this did not happen in the case of Uganda. In the transport sector, for instance, following the sale off of the public transport company, the Uganda Transport Company (UTC), more efficient private buses and taxi owners have emerged to facilitate the transport system. In the industrial sector, following the divestiture of various manufacturing concerns, increased production was recorded in the manufacturing sector. This sector has been growing at a rate ranging between 7% and 19.7%[10] in the past four years as compared to an earlier growth rate which averaged 4.86% in 1988-1990. Although the manufacturing sector is still small, it indicates that fiscal adjustment measures have not led to a slow down of the economy but rather to increased production as the privatised companies operate with more efficiency. Following the privatistion of Tororo Cement Works, the index of industrial production for cement rose by 55.3% within a period of only one year (Background to the budget, 1997/98). Today, Cement is among the eight major manufacturing sectors in Uganda (the others being beer, cigarettes, edible oil, electricity, laundry soap, soft drinks, and sugar). East African Distillers, the country's major liquor producer also recorded increased production following privatisation (URA monthly statistics, 1995/96). In the Hotel Services sector the restructuring and divestiture of the Uganda Hotels brought about improvements in the service provision and an emergence of Five-Star hotels. A case in point is the current Sheraton Kampala

[10] These manufacturing growth rates are derived from background to the Ugandan budget 1997/98. Manufacturing growth rates for 1992,93,94, 95and 96 are 7.01%,15.1%, 17.3%, 19.7% and 14.2%.

Hotel (formerly Apollo Hotel Corporation) which prior to restructuring of the public enterprises sector was awaiting closure. Following public sector reform, it was restructured and rehabilitated and it has greatly boosted the tourism industry as well as the general image of the country. Today, this hotel is also among the top 25 contributors to the government revenue (URA, statistical bulletin, 1995/96).

Other divested companies have also recorded increased production and increased tax revenues to the government following public enterprise reform. Crown Bottlers which was privatised in February, 1993, recorded increased production and improved marketing of Pepsi soft drinks. Utilisation capacity was expanded threefold while taxes payable to the government quadrupled from a monthly average of 350 million Ushs. in 1993 to 1.2 billion Ushs. in 1996 (The International Herald Tribune, Oct 1996). In *real* terms this represents a 42% increase. The contribution of such improvements to Uganda's GDP and its growth though not accurately quantifiable can not be overlooked.

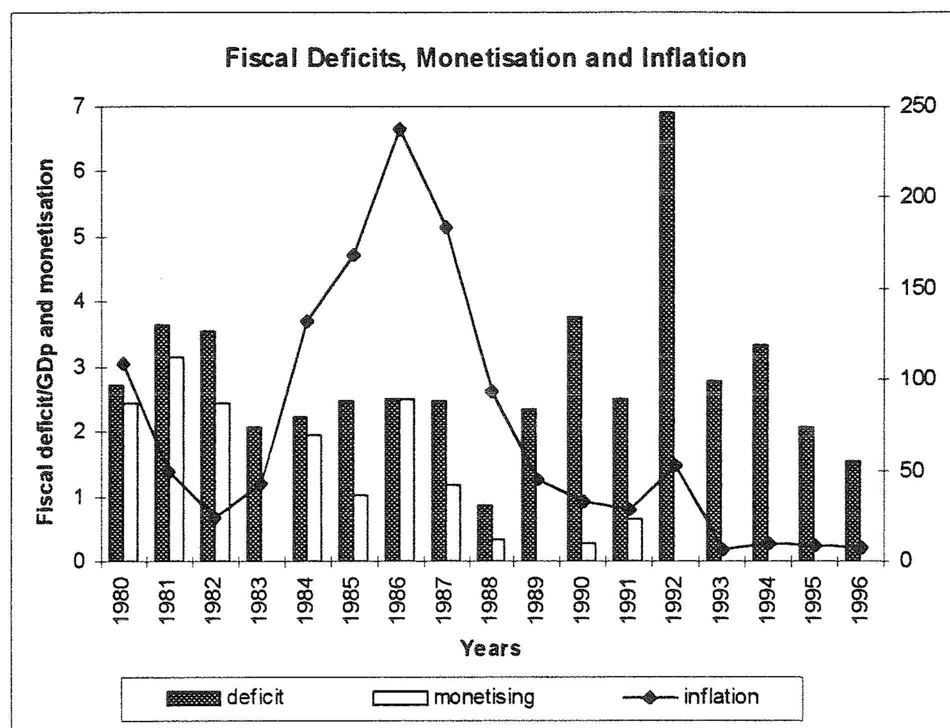
4.2.5 Fiscal Adjustment and macro economic stability

Fiscal adjustment impacts on growth through ensuring a more stable macro economic environment and inflation is used as the main indicator of economic instability. It is also theoretically hypothesised that fiscal deficits in most countries cause high levels of inflation. Inflation has a negative impact on Uganda's growth and therefore policies directed towards curbing inflation would create an enabling environment for achieving growth. The World Bank report on *Uganda: growing out of poverty (1995),* blamed Uganda's inflation on irresponsible fiscal policy. Earlier empirical studies on Uganda by Michael Hodd (1989) revealed that inflation was to a great extent caused by an increase in money supply and that the variations in money supply were greatly explained by the budget deficit. Empirical studies on the relationship between fiscal deficits and inflation often show a low correlation. This is because monetising of the deficit which is said to cause inflation is only one of the various ways to finance the deficit. This low correlation between inflation and the fiscal balance was also arrived at by Schmidt - Hebbel (1996) in his cross-country comparisons of this relationship.

The table in appendix (iii) shows the annual figures of inflation matched with the level of the deficit for the period 1980-1996. The relationship between Uganda's periods of high fiscal deficit and triple digit inflation is non existent. For instance, in 1978 a small deficit of -0.25, contrasts with a high inflation of 213.6. Uganda's highest inflation in history of 238.1 in 1986, also coincides with a relatively small deficit of -2.59. The high inflation in 1984-1986, was due to among other

reasons the war situation in Uganda which caused a cut off of Uganda from her neighbour and trade-partner Kenya causing scarcity of goods in the country.

Figure 4.4 Relationship between fiscal deficits, deficit monetisation and inflation



The relationship between high inflation and high rate of monetisation of the deficit is however existent implying that Uganda's inflation is to an extent caused not so much by the size of the deficit itself but rather by the way it is financed. (See graph above: Fiscal deficits, monetisation and inflation) This is especially true for 1986 when almost 100% of the deficit was financed by borrowing from the central bank, inflation was very high (238.1, and it is the highest in Uganda's history). However, there are also some years where high monetisation does not match high inflation. For instance, in 1982, a high monetisation of 68.5 coincides with a lower inflation of 24%, while in 1985, a lower monetisation of 47.0 matches a triple digit inflation rate of 168.1 Although the monetarist theory posits a positive correlation between monetisation and the price level, this is not always the case as Uganda's inflation is also caused by other factors as well.

Nevertheless, years (1993-1996) following fiscal adjustment registered lower deficits, no monetisation and lower inflation. The reduction of inflation may be attributed to fiscal adjustment measures together with the increased inflow of foreign funding since 1992 which made it possible for Uganda to finance the remaining deficit without necessitating the printing of money. Other

factors that contributed to macro economic stability were tight monetary policy and financial liberalisation which were pursued during that time.

4.3 Fiscal Adjustment and Growth of Uganda's GDP (1986-1996)

In completing the study on Fiscal adjustment and growth in Uganda, it is also imperative to review the growth trends of the various components of Uganda's GDP (C+I+G+X-M). This section will evaluate what has driven Uganda's Growth while showing the possible contribution (or de-contribution) to their growth emanating from the fiscal adjustment measures. The impact on investment (I) will not be repeated here as it was covered in section 4.2.

4.3.1 Export (X) Growth

No direct fiscal adjustment measures were implemented to affect Uganda's export sector and the growth in the export sector mainly derives from the liberalisation the foreign exchange rate and the deregulation of external trade regime which led to the emergence of private exporters. In 1994 the high export growth was a result of the coffee-price boom that Uganda benefited from when Brazil the world's biggest exporter of coffee experienced a frost and failed to satisfy the international coffee demand. Beginning with 1992, there is an apparent trend that would signify that Uganda's growth was export-driven especially in 1994. (See figure 4.5 below showing Uganda's export and GDP growth).

Figure 4.5 Export and GDP growth 1986-1995

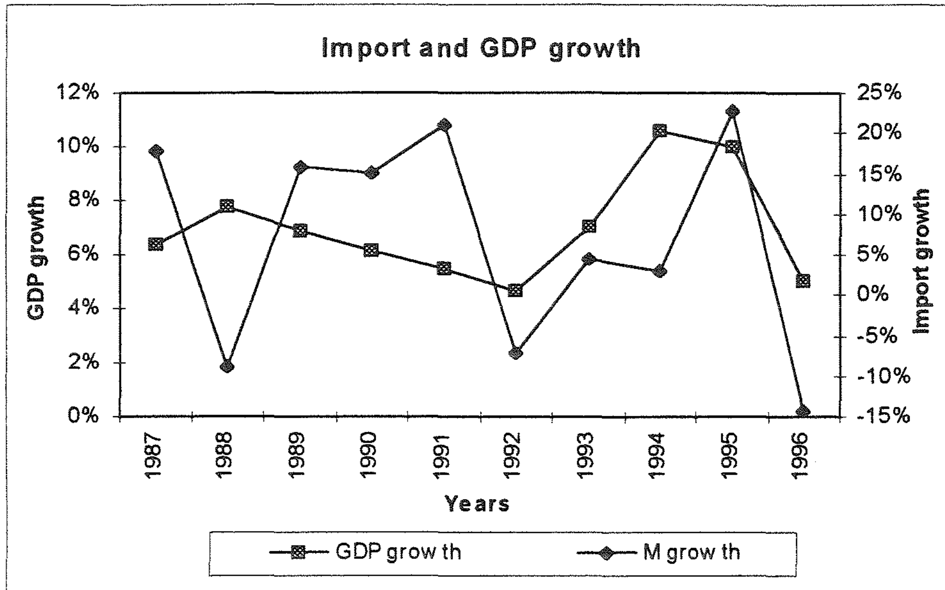
Other factors have also contributed to the export growth. Uganda has been implementing export diversity to boost the export sector and to enhance revenue from this sector. Increased revenue from exports is necessary to finance imports and hence reduce the current account deficit to sustainable levels commensurate with sustainable growth. Uganda's current account continues to be financed by bilateral donors and external grants, but competing demand for these resources have also emerged from the former Soviet Union, East Asia and south Africa (Dumba-Sentamu, 1994) thus reducing resources available for Uganda, hence necessitating Uganda to expand her exports so as to finance imports. The introduction of non-traditional exports like Vanilla, fresh fruits, cashew nuts, beans, cut flowers, pyrethrum, vegetables, spices and Simsim to supplement the staple export crops of coffee and cotton, and the development of the manufactured export sector since 1991 has improved Uganda's export capacity. Explicit taxes on exports were also removed in 1992, although they were reinstated during the coffee price boom of 1994 to avoid the repercussions of the *Dutch Disease* [11], namely inflation and appreciation of the shilling. The coffee tax has since 1996 been abolished again. Also, the establishment of export finance schemes in the Central Bank of Uganda (BOU), the liberalisation of trade and foreign exchange rate system which started in 1987 also had a positive impact on Uganda's export sector.

4.3.2 Imports (-M) Growth.

Given its negative sign, a reduction in the import bill has positive implications on the GDP level. This is especially true if the import list includes mainly luxurious non-productive imports or import-substitutes. However, if the import list contains capital goods to be used for generating output, a big import bill can not be judged to be detrimental to long run growth. Relevant time series data on the breakdown of Uganda's imports is not available to investigate how much of Uganda's imports are growth-related. Imports continue to contribute about ˉ20% of GDP despite import compression. Imports are affected by general fiscal measures like changes in the tax rates and there have been many such changes in Uganda which are announced at the beginning of every financial year. However, these alterations in the tax rates are part of the tax policy routine and their impact can not be assessed as part of the fiscal adjustment package. Like the case for exports, therefore fiscal adjustment did not directly greatly affect the import sector; aside from the effect of streamlining of the tax waivers on imported raw materials. The impact of this measure can not however be conclusively analysed considering that the policy has not followed a clear path and has been in place for a short period of time. Notwithstanding all this, import growth in the period 1992-1996 is in the same direction with GDP growth (Figure 4.6), indicating a possibility that the high import bill may be on capital goods used for output generation.

[11] *Dutch Disease syndrome;* so-called after the experience of the Netherlands which experienced a recess, inflation, and lower growth despite an export boom following the discovery of major reserves of natural gas in the 1960s. Saudi Arabia, Nigeria and Mexico also faced a similar phenomena following the oil price boom of the 1970s.

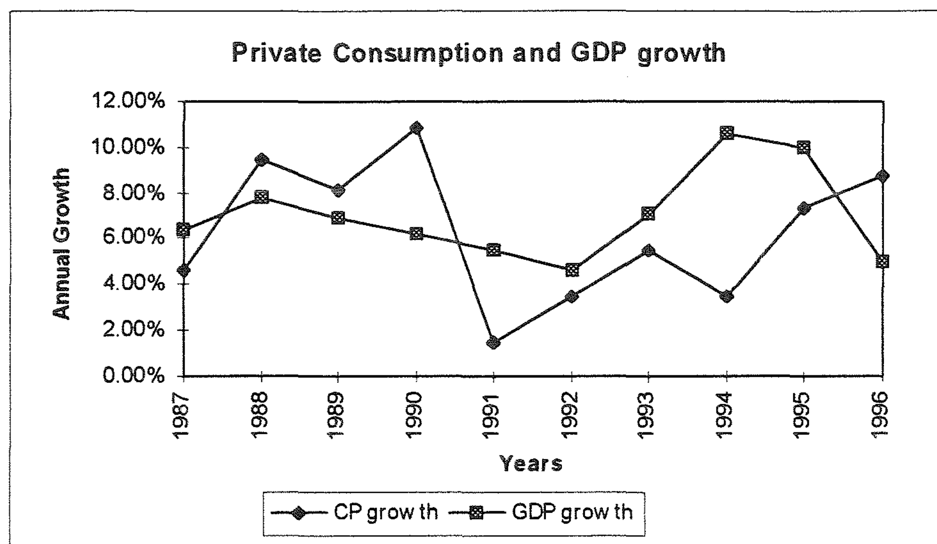
Figure 4.6 Import and GDP growth 1986-1995



4.3.4 Private and Public Consumption (Cp+Cg)

Private Consumption is affected by fiscal adjustment measures that include taxation of income and commodities as well as retrenchment and privatisation. Private consumption as a ratio of GDP 1992 followed a declining trend after 1992. It declined from an average of 88%-94% in 1986-1990 to 83%-87% in the period 1992-1995. This is also evident in figure 4.1 showing the composition of Uganda's GDP. Figure 4.7 on GDP growth and Cp growth also shows a declining growth trend of Cp. In the period 1987-1990, Cp growth ranged between 4.5 and 10.0%. Its growth rate declined in 1991 and in the period 1992-1996, its growth rate was lower than in 1987-1990. It might therefore well be true that increased taxation, retrenchment and privatisation led to depressed private consumption in Uganda. This is probable considering that fiscal adjustment measures generally reduce Absorption especially in the short run. Through retrenchment alone over 200,000 people lost their jobs and hence their capacity to purchase goods and services declined. Although the retrenched were given retrenchment packages, the packages were largely insufficient and the retraining and deployment measures which were to be carried did not materialise implying that the majority experienced lower standards of living than before fiscal adjustment. On the other hand a reduction in private consumption may imply an increase in savings.

Figure 4.7 Private Consumption and GDP growth



Government Consumption (Cg) ratio to GDP has been rather stable both before and after fiscal adjustment ranging between 8%-10% of GDP. The development budget of which over 80% is financed by external grants increased following fiscal adjustment (these facts are shown in figure 3.4 and figure 3.7 in chapter Three) implying that the increased grants are used to finance development expenditure. This budget has increased in line with the growth-oriented strategy of improving and expanding economic infrastructure. This increase is also observed in other studies carried out on other adjusting countries. Ghana's capital budget (including foreign financed) for instance rose from 1.9% of GDP to 5.3% of GDP following fiscal adjustment (IMF, 1992). Uganda's development budget as a ratio of GDP increased from 3.2 in 1986 to 7.6% in 1996.

4.4 Other factors affecting growth in Uganda

Although Uganda experienced relatively stable growth since the time of fiscal adjustment, Uganda's growth can not all be attributed to the environment created by fiscal adjustment measures. Fiscal adjustment took place together with other structural adjustment policies whose implementation started in 1987. These policies included, financial liberalisation, exchange-rate and trade liberalisation. To ensure a liberal trade regime and improve the country's openness, Non Tariff Barriers (NTBs) have been removed save for those imposed for security and health reasons. Tarrifs have further been restructured under the Cross Border Initiative and the Common Market for East and Southern Africa (COMESA). Other policies included: the dismantling of price controls and upward adjustment of producer prices, the gradual liberalisation of agricultural pricing and marketing as well as devaluation of the Uganda shilling. All these policies impacted on the

various components of Uganda's GDP in that period and were essential for sustainable growth. Financial liberalisation contributed to increased Gross Domestic Savings. Further this period of fiscal adjustment coincides with a period of improved political situation in Uganda. This too has had positive effects on growth especially through instilling confidence in investors by reducing the so-called "*African- risk syndrome*".

Aside from the programs undertaken under the ERP, the Uganda government has undertaken a strong stand in developing infrastructure especially the road network linking the rural agricultural areas to the urban markets to support market integration. Good infrastructure attracts financial infrastructure and stimulates economic activity. More funds are also being directed towards agricultural research as a means of improving the agriculture sector from which over 50% of Uganda's GDP derives. Consequently the tea and cotton yields have started picking up (WB: Uganda; Growing out of Poverty, 1995). Agricultural research has also resulted into the enhancement of the horticultural crops like chilies, spices and ornamentals which have enhanced the export sector.

Despite the commendable improvement in performance of Uganda's economy in the past 6-10 years, Uganda still has a long way to go so as to attain the stable and sustainable growth level that was experienced between 1960-1970. Apart from increased levels of investment, this requires increased effort to boost the export sector to sustainable growth rates. In the past decade, there has been great improvement in internal conditions that were responsible for Uganda's poor performance in the period 1971-85. Uganda's current problems therefore mainly derive from external shocks. For instance, GDP growth which was 10.58% in 1994 and 9.99% in 1995, consequently dropped to 5.03% in 1996 because of among other reasons, the international prices of non-fuel primary commodities fell by 1.3%. Uganda therefore needs to undertake policies to cushion the economy from such shocks. Export diversity to reduce reliance on coffee is a step in the right direction.

4.5 The Analytical Framework and Conclusion

The analytical logical framework developed in Chapter Two showed that fiscal adjustment contributes to growth by ensuring a more stable macro economy and by leading to an increase in public savings which eventually lead to increased investment. Another positive contribution of fiscal adjustment to growth was through increased efficiency. This analytical framework can now be filled with the findings about Uganda' fiscal adjustment measures and growth, the summary of which is presented in a table below.

(i) Macro economic objectives of fiscal adjustment

	Achieved	effect on growth	other contributors
Macroeconomic stability	Yes	+	financial reforms, tight monetary policy
Higher Savings =>Higher Investment	Yes	+	financial reforms, return of Asians Properties and UIA
Reduced distortions=>Efficiency	Yes	+	

(ii) Fiscal adjustment Tools

	Implemented	effect on growth
Expenditure cuts		
Retrenchment	Yes	+ on efficiency/-increased poverty
Privatisation	Yes	+, efficiency
Revenue increases		
Tax reform	Yes	+, reduced distortions
User fees/Cost recovery	Yes	-, on health, + on higher education

In conclusion, this chapter has shown the impact of fiscal adjustment on the factors that affect growth as well as the impact on various components of Uganda's GDP for the period 1986-1996. Fiscal adjustment has so far had positive implications on Uganda's growth. Some of the fiscal adjustment measures have had positive effects on growth while others still need time before their impact can be assessed. The negative impact of fiscal adjustment has been minimal cited mainly on the poor. Uganda's period of fiscal adjustment coincides with a period of low inflation and positive growth.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND POLICY RECOMMENDATIONS

5.0 Introduction

The study was undertaken with the main objective of evaluating if fiscal adjustment geared towards elimination of the deficit will foster growth in Uganda. Though it is a prerequisite for long-run economic growth, fiscal adjustment if not carefully pursued can hamper the long run growth it sets out to achieve as it does not come without a trade-off. The remaining parts of the chapter will give a summary of findings from the study about Fiscal Adjustment and growth in Uganda as well as policy recommendations. Considering that fiscal adjustment is already being implemented in Uganda, my recommendation will be in the line of making the current implementation more efficient and less detrimental to growth. In summary I have the following to say:

5.1 Growth in Uganda

The Ugandan economy achieved more stable growth in the period 1960-1970 and GDP per capita was as high as 600 $. The period 1971-1985 was a period of decline and GDP per capita went as low as 120-200 $ for most years. Since 1987, Uganda has embarked on restructuring the economy and considerable changes have taken place in the economy. However, Uganda's per capita GDP level is still below what it was in the period 1960-70. GDP per capita has been increasing but it is still as low 320 $ in 1996. Uganda has therefore not yet achieved the per capita level and growth that was experienced in the period 1960-1970. Although Uganda has achieved commendable growth, this growth is not yet sustainable. The problems mainly derive from the external shocks as there has been commendable improvement in the internal conditions in the country.

An analysis of the growth of the various components of Uganda's national income shows fluctuating trends. Uganda has managed to achieve growth with a modest level of investment of less than 20% of GDP which is the Sub Saharan average. This share is however increasing and 1996 recorded a high level of 17% of GDP. The years 1993-1996 which registered higher investment/GDP ratios also coincide with Uganda's period of higher growth, confirming the theoretical significance of investment to growth. There is also a trend that suggests that Uganda's growth was export driven in the period 1992-1996. This relation is most apparent in 1994.

5.2 Fiscal Adjustment in Uganda

Fiscal adjustment measures have been implemented in Uganda since 1990. During this time, Uganda's fiscal deficit declined. Notably, the primary deficit moved into a surplus following fiscal adjustment while the overall deficit also declined. Positive results on the deficit were mainly due to the revenue-increasing measures. Expenditure-cutting measures were less successful because of increases in wages and salaries following adjustment as well as continued political insurgencies in some parts of the country that have continued to drain Uganda's budget. Worth noting also is the fact that expenditure-cutting is a complex policy that depends to a large extent on the politics of the day. Uganda actually increased government expenditure rather than reduced it despite the austerity measures.

It is also imperative to point out that the reduced deficit was also due to continued inflow of grants that started to flow into Uganda starting in 1991. There is therefore a big disparity between the deficit including and the deficit excluding grants. Monetisation of the remaining deficit has also been non-existent since 1993 as Uganda intensified efforts to finance the deficit through foreign finance. Consequently, the government has been paying back instead of borrowing from the Central Bank. Uganda has been successful in containing inflation and this can also be attributed to the introduction of the cash budget which meant that the government could no longer borrow from the Central Bank. On the impact of fiscal adjustment on growth; total and private investment level as ratios of GDP increased yet the theorised impact of cutting government expenditure on private investment in developing countries is mostly negative. The negative impact of fiscal adjustment measures on the determinants of Uganda's growth have therefore been minimal. Health consumption shows a negative impact especially in the rural areas. Fiscal adjustment has led to increased efficiency in the manufacturing sector.

5.3 Fiscal Adjustment and Growth in Uganda and Policy recommendations

Growth-oriented fiscal adjustment should not be self-destructive and should aim at achieving a reduction in the deficit with minimum inhibition to growth. It should therefore not adversely affect the work effort, induce capital flight, suffocate the export sector, reduce private investment or lead to a reduction in the savings level. The elimination of expenditure on inefficient SOEs and a restructuring of the public sector are plausible for the inefficiencies they cause hamper growth. Cutting expenditure on unprofitable and inefficient projects represents a net gain to the economy. However, it is worth mentioning that fiscal adjustment measures especially expenditure-cutting measure are not always supportive of growth. This therefore necessitates prudence in ensuring efficient fiscal adjustment that will not only be durable but also efficient in impact and bear minimum cost on sustainable long term growth.

Uganda plans to further privatise utilities that are related to the provision of infrastructure, notably, the Water Board, The Uganda Electricity Board and Uganda Posts and Telecommunications Corporation come 1998. The national commercial bank; Uganda Commercial Bank (UCB) will also be privatised before the end of 1997. Although private concerns are more efficient than public ones, they may not operate in the best interests of the development of the country at large as their driving motivation is mainly profit. For instance a private telecommunication service may not provide communication services to regions with few subscribers, yet the availability of such infrastructure even to the minority can have positive long run externality effects.

While privatisation is necessary and its positive impact has already been felt in some sectors, conditions need to be set on the private owners and buyers of infrastructure-related concerns to cover the areas originally covered by the government. Alternatively the government should have options to cover these gaps like for instance implementing *partial privatisation* whereby parts of the same public concern that can favourably compete with the private sector in the urban areas are divested while the government continues to provide for the population from the less developed parts of the country. Controls such as these are very difficult to impose but total privatisation without any government guidance and intervention may hamper Uganda's long run growth or lead to skewed distribution of growth benefits and uneven development of the country. A case in point is the privatisation of the Uganda Commercial Bank; the national bank that has the largest coverage and the only bank that widely covers the rural area as well. Its privatisation will imply a closure of most rural branches and rural savings are likely to fall if this gap is not filled.

Growth-Oriented fiscal adjustment should not worsen or lead to increases in the levels of poverty. If poverty level of a country increase, this will lead to a decline in the per capita GDP growth as this measure depends on the total population, the poverty - stricken inclusive. The World Bank report on Uganda's poverty quotes among other causes of poverty in Uganda as little expenditure on health and education. Uganda's expenditure on health as a ratio to GDP compares unfavourably with the sub Saharan Africa average. Uganda should aim at increasing public resources in favour of primary health services while tertiary medical care should only be supported when funds allow. Primary health still needs to be subsidised to a great extent especially in the rural and target areas and to the vulnerable groups of society. User-fees on health services should therefore not be introduced across-the-board. (Muwonge, 1996) recommends that user-fees that are linked to the level of income are better-suited than those imposed across-the-board. Target income support is very essential in this aspect and differential user fees based on region and economic status will ensure more equity.

Uganda's total public expenditure in comparison with other sub-Saharan African countries is still low and this would imply that Uganda needs to increase public expenditure rather than reduce it. This does not however imply that expenditure on inefficient SOEs should continue. Uganda requires *"government expenditure-switching measures"* whereby expenditure is switched from non-profitable spending to more long run profitable spending. Uganda still needs to emphasise human resource development so as to increase the labour-force skills and productivity. Bearing in mind that it is not only the quantity but also the quality and diversity of skills that matters for growth, Uganda needs to direct some expenditure to vocational training which improves technical skills. This development of human resources leads to growth. Further, although it is only the wages and salaries and inefficient public enterprises that were considered for expenditure-cutting, Uganda still incurs large public expenditure on purchase of goods and services recorded under recurrent-others. This part of the budget also needs to be scrutinised and reviewed as some of the expenditure may also be inefficient and require cutting. This will make available more funds for social spending.

Considering the higher expenditure needs that Uganda has, the alternative is to raise more tax revenue for the economy if growth is to be achieved. Tax reforms have already been embarked on, the most recent one being the introduction of the VAT, and the results have been evidenced by an increase in the tax ratio. The Tax Identification Number (TIN) register however shows that less than 20% of Uganda's population pays taxes implying that tax culture is yet to be inculcated into the people as people prior to adjustment were accustomed to avoidance, evasion and underdeclarations of their tax obligations. Government credibility and transparency on how the revenues are spent could help improve taxpayers attitude. Todate apart from the Background to the Budget which gives a very brief summary and to which very few people have access, as it is boldly marked *"not for sale"*, implying limited access to the public, no major detailed publication of Uganda's National Accounts is made for the public's consumption.

Further although paying taxes is a *non quid pro quo* activity implying that the taxpayer is not obliged to receive benefits from the payment, if taxpayers can not attach any visible benefit to their payments, evasion and avoidance rates are likely to be high. Corruption and embezzlement of government funds in Uganda disheartens the tax payers. In this vein amidst fiscal adjustment governments should strive to eliminate corruption and spend taxpayers' money visibly profitably. This will improve taxpayers enthusiasm and make them more compliant and hence more revenue will be collected to finance expenditure.

Uganda continues to suffer from a narrow tax base due to the small size of the formal sector. The informal sector continues to go untaxed as the 80:20[12] rule applies in Uganda. While it is costly and inefficient to collect taxes from the informal sector, the informal sector needs to be brought into the tax paying group by introducing first low specific tax rates that are easy to collect and with less disincentive effects on the informal sector. Tax base expansion is very important for maximising revenue (Shalizi, 1991). The tax administration also still needs to be improved. Apart from the VAT department which is adequately computerised, other collecting departments are largely manual making it difficult to easily capture non-filers, stop-filers and evaders. Shalizi et al (1991, pp19) recommend the opening up of a master file where various taxpayers and companies can be easily and uniquely identified and cross checked in time. This calls for information net-working and a development of a vigilant research, development and investigations department in the tax-collecting body. Higher and prohibitive penalties also can be a useful deterrent to evaders hence improving tax revenue collection.

As already noted, no single factor on its own is responsible for the growth of any economy. This implies that fiscal adjustment needs to be complemented by other policies so that sustainable growth can be achieved. In this vein, fiscal adjustment needs to be complemented by among other factors; success in the financial, and trade liberalisation as well as exchange rate reform so as to achieve high private investment and consequently growth. It is a combination of fiscal reform, trade liberalisation, financial reform, currency devaluation, and target income support that can achieve economic efficiency (Greener et al, 1996). Liberalisation of the economy and shifting the incentives in favour of the tradable sector enhances private sector development and so complements fiscal adjustment in achieving growth. Trade liberalisation and foreign exchange rate reforms have been undertaken in Uganda since 1987 so as to reduce the anti-export bias among other objectives. The recent introduction of the VAT has also helped reduce the negative cascading effect of the previous tariff structure on exports.

Aggressive financial liberalisation is necessary to complement fiscal adjustment so as to further increase the investment level for Uganda to achieve sustainable growth. Uganda has already undertaken financial sector reforms and the financial sector has been freed of "repression". Although domestic savings as ratio of GDP which averaged -1.12% between 1987-94 increased to 13.7% of GDP between 1994-96 (Background to the Budget 1996/7), a lot still needs to be done to enhance the intermediary role of this sector. Long-term finance institutions are lacking in Uganda and need to be developed. Currently, Uganda mainly relies only on the East African Development

[12] Means 20% of the taxpayers contribute 80% of total revenue.

Bank. The Kampala Stock Exchange which is the only equity market in Uganda is still in its rudimentary form. This necessitates the government to encourage the establishment of the equity market. The informal financial institutions also needs to be integrated into the formal sector. Further, rural savings should also be enhanced by developing the rural finance institutions.

5.4 Conclusion

It is no doubt that unsustainable fiscal deficits, inefficiencies and distortions in resource allocation have had negative implications on Uganda's growth, thus necessitating their elimination through "*getting the prices right*" and diminishing the role of state from sole provider to a facilitator. The fiscal adjustment measures that have been implemented to overcome these economic vices have been reviewed in the preceding chapters of the paper. The study reviewed both the positive and negative contributions of these measures to the sources of Uganda's growth. The negative impact of fiscal adjustment measures in Uganda have been however minimal. Notably the impact of user-fees on the less advantaged part of the society has been unfavourable. On the positive side, the study reveals that the most visible positive contribution to Uganda's growth accruing from fiscal adjustment derives from increased efficiency notably in the manufacturing and services sectors. Ensuring a stable macro economy and increasing investment have also been achieved and they have been aided by other conditions at the time. Improved macro economic stability has been aided by tight monetary policy and financial reforms while increased domestic investment was also enhanced by the financial reforms, return of the Asians' Properties and the establishment of the UIA.

The lessons to learn from the experience of Uganda are: (a) That fiscal adjustment that has positive implications on growth needs to be complemented by successful financial, trade and foreign exchange liberalisation. (b) That fiscal adjustment needs to be implemented very prudently and efficiently so as to minimise the short run contractionary effects and this calls for a preparatory period to study the implications of the various measures as well as proper timing. (c) Safety nets are necessary for the vulnerable groups and the poor as it is almost inevitable that they will be negatively affected by some fiscal adjustment measures. (d) And finally that fiscal adjustment is necessary for growth not only through reducing the deficit and inflation but also through improving the incentive structure and efficiency in the country.

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Appendix (i) GDP and GDP per capita (1970-1996)

Year	GDP current mkt prices in millions	GDP deflator 1990=100	GDP constant prices (1990=100)in millions	GDP growth	Population In millions	pc GDP	Pc GDP growth	Mon GDP	Non mon GDP
1970	94.50	0.008	1,220,337.40		9.81	124,397		72.90%	27.10%
1971	103.70	0.008	1,256,047.30	2.93%	10.12	124,115	-0.23%	73.10%	26.90%
1972	113.90	0.009	1,264,429.80	0.67%	10.40	121,580	-2.04%	72.00%	28.00%
1973	129.50	0.010	1,256,717.90	-0.61%	10.67	117,780	-3.12%	70.80%	29.20%
1974	160.30	0.013	1,258,897.30	0.17%	10.94	115,073	-2.30%	70.10%	29.90%
1975	225.00	0.018	1,233,414.30	-2.02%	11.23	109,832	-4.55%	67.50%	32.50%
1976	264.50	0.021	1,242,467.50	0.73%	11.53	107,760	-1.89%	67.00%	33.00%
1977	485.70	0.038	1,261,915.10	1.57%	11.86	106,401	-1.26%	68.70%	31.30%
1978	643.00	0.054	1,192,842.50	-5.47%	12.20	97,774	-8.11%	63.00%	37.00%
1979	995.80	0.094	1,061,235.90	-11.03%	12.52	84,763	-13.31%	62.60%	37.40%
1980	1,352.00	0.132	1,025,190.70	-3.40%	12.81	80,030	-5.58%	63.30%	36.70%
1981	2,665.00	0.250	1,064,756.60	3.86%	13.08	81,403	1.72%	67.30%	32.70%
1982	3,953.00	0.350	1,128,177.90	5.96%	13.34	84,571	3.89%	70.90%	29.10%
1983	6,142.00	0.505	1,216,262.10	7.81%	13.60	89,431	5.75%	67.80%	32.20%
1984	9,598.00	0.828	1,158,503.10	-4.75%	13.86	83,586	-6.54%	71.00%	29.00%
1985	25,622.00	2.207	1,160,724.30	0.19%	14.13	82,146	-1.72%	64.80%	35.20%
1986	65,444.00	5.319	1,230,424.90	6.00%	14.46	85,092	3.59%	62.70%	37.30%
1987	224,041.00	17.114	1,309,143.30	6.40%	14.84	88,217	3.67%	63.20%	36.80%
1988	634,634.00	44.964	1,411,417.90	7.81%	15.27	92,431	4.78%	65.30%	34.70%
1989	1,178,185.00	78.088	1,508,788.50	6.90%	15.77	95,675	3.51%	64.70%	35.30%
1990	1,602,094.00	100.000	1,602,094.00	6.18%	16.33	98,107	2.54%	68.90%	31.10%
1991	2,222,860.00	131.507	1,690,300.90	5.51%	16.89	100,077	2.01%	70.50%	29.50%
1992	3,687,704.00	208.514	1,768,563.80	4.63%	17.46	101,292	1.21%	71.10%	28.90%
1993	4,024,186.00	212.539	1,893,390.80	7.06%	18.06	104,839	3.50%	72.30%	27.70%
1994	5,129,772.00	245.009	2,093,706.00	10.58%	18.63	112,384	7.20%	73.20%	26.80%
1995	5,813,893.00	252.460	2,302,892.20	9.99%	19.26	119,569	6.39%	70.90%	29.10%
1996	6,303,732.13	260.611	2,418,830.00	5.03%	19.85	121,855	1.91%	73.80%	26.20%

Source: IFS, World Bank Tables Diskette, 1994 and Background to the Budget of Uganda (various issues)

Appendix (ii) Inflation, fiscal balance, GDP, exports, imports and investment (1970-1996)

Year	Inflation	Fiscal Balance	real GDP	Exports	Investment	Imports
1970	9.9	-4.37	1,220,337	262,500	150,000	225,000
1971	-2.9	-7.25	1,256,047	250,000	212,500	300,000
1972	24.5	-7.89	1,264,430	233,333	144,444	200,000
1973	67.1	-6.65	1,256,718	200,000	100,000	160,000
1974	20.2	-9.52	1,258,897	169,231	123,077	169,231
1975	46.6	-5.50	1,233,414	100,000	83,333	127,778
1976	88.5	-4.98	1,242,468	133,333	57,143	114,286
1977	36.5	-2.63	1,261,915	121,053	47,368	102,632
1978	216.6	-0.25	1,192,843	153,161	35,185	211,610
1979	11.8	-3.47	1,061,236	199,449	24,471	180,197
1980	108.7	-2.72	1,025,191	195,678	33,288	262,001
1981	49.3	-3.63	1,064,757	152,793	39,549	209,682
1982	24.1	-3.54	1,128,178	94,659	99,954	197,876
1983	42.7	-2.08	1,216,262	127,723	109,505	200,990
1984	132.4	-2.23	1,158,503	184,541	109,420	186,957
1985	168.5	-2.46	1,160,724	136,384	96,239	171,273
1986	238.1	-2.50	1,230,425	144,914	111,130	224,121
1987	183.6	-2.48	1,309,143	112,434	155,317	264,351
1988	93.8	-0.87	1,411,418	107,851	153,523	241,068
1989	45.5	-2.35	1,508,789	112,480	164,357	279,307
1990	33.1	-3.75	1,602,094	111,534	228,129	321,285
1991	28.1	-2.51	1,690,301	141,848	275,933	389,064
1992	52.4	-6.92	1,768,564	121,531	262,383	361,774
1993	6.1	-2.79	1,893,391	145,940	304,843	378,100
1994	9.6	-3.34	2,093,706	226,521	299,833	389,557
1995	8.6	-2.07	2,302,892	256,382	386,533	478,366
1996	7.3	-1.53	2,418,830	261,717	417,973	409,749

Source: IFS, World tables Diskette, 1994 and Background to the Budget of Uganda (various issues). Values are real values in million Uganda Shilligs GDP deflator 1990=100

Appendix (iii) Uganda's Fiscal deficits, financing and inflation

	DEFICIT					
	before grants	after grants	Inflation	foreign	bank	non bank
1970	-4.37	-4.37	9.9			
1971	-7.25	-7.25	-2.9			
1972	-7.95	-7.89	24.5			
1973	-6.67	-6.65	67.1			
1974	-9.76	-9.52	20.2			
1975	-5.51	-5.50	46.6			
1976	-5.38	-4.98	88.5			
1977	-2.67	-2.63	36.5			
1978	-0.25	-0.25	216.6			
1979	-3.47	-3.47	11.8			
1980	-2.78	-2.72	108.7	7.8%	90.1%	2.0%
1981	-3.73	-3.63	49.3	6.5%	86.5%	7.1%
1982	-4.30	-3.54	24.1	22.4%	68.5%	9.1%
1983	-2.24	-2.08	42.7	11.5%	-11.1%	99.6%
1984	-2.59	-2.23	132.4	15.1%	87.5%	-2.7%
1985	-2.76	-2.46	168.5	31.4%	41.7%	26.9%
1986	-3.09	-2.50	238.1	8.5%	100.0%	-8.5%
1987	-2.86	-2.48	183.6	52.7%	47.3%	0.0%
1988	-1.76	-0.87	93.8	59.2%	37.5%	3.4%
1989	-3.55	-2.35	45.5	132.0%	-27.8%	-4.2%
1990	-5.02	-3.75	33.1	87.1%	7.4%	5.5%
1991	-5.67	-2.51	28.1	71.5%	26.2%	2.4%
1992	-9.48	-6.92	52.4	113.5%	-9.8%	-3.7%
1993	-10.59	-2.79	6.1	112.5%	-17.0%	4.5%
1994	-8.85	-3.34	9.6	169.4%	-76.3%	7.0%
1995	-6.43	-2.07	8.6	140.4%	-19.6%	-20.8%
1996	-5.79	-1.53	7.3	129.0%	-52.1%	23.1%

Notes:

Source: IFS and Background to the Budget of Uganda (various issues).

It is the deficit after grants that is referred to as the deficit in this paper.

Information on financing of the deficit from 1970-1979 is unavailable

Appendix (iv) Time series of selected variables

	Inflation	Tax Revenue %Direct	%Indirect	Tax ratio	GDP %Mon GDP	%Non mon GDP	Population
1960	-5.7	25.0%	75.0%	9.68%	72.90%	27.10%	7.55
1961	15.7	26.0%	74.0%	8.56%	71.10%	28.90%	7.74
1962	-13.9	44.2%	55.8%	12.41%	68.90%	31.10%	7.94
1963	3.5	21.6%	78.4%	9.08%	73.10%	26.90%	8.15
1964	10.1	17.0%	83.0%	9.81%	72.20%	27.80%	8.36
1965	12.3	13.6%	86.4%	14.14%	67.20%	32.80%	8.20
1966	-1.0	15.3%	84.7%	12.82%	72.10%	27.90%	8.50
1967	3.4	20.6%	79.4%	15.53%	71.00%	29.00%	8.81
1968	-3.3	25.0%	75.0%	10.94%	72.20%	27.80%	9.13
1969	11.7	18.0%	82.0%	11.45%	72.80%	27.20%	9.46
1970	9.9	20.0%	80.0%	10.53%	72.90%	27.10%	9.81
1971	-2.9	20.4%	79.6%	11.86%	73.10%	26.90%	10.12
1972	24.5	23.9%	76.1%	12.08%	72.00%	28.00%	10.40
1973	67.1	20.3%	79.7%	9.26%	70.80%	29.20%	10.67
1974	20.2	17.4%	82.6%	6.80%	70.10%	29.90%	10.94
1975	46.6	9.2%	90.8%	8.60%	67.50%	32.50%	11.23
1976	88.5	8.7%	91.3%	8.36%	67.00%	33.00%	11.53
1977	36.5	8.9%	91.1%	6.49%	68.70%	31.30%	11.86
1978	216.6	7.4%	92.6%	9.09%	63.00%	37.00%	12.20
1979	11.8	11.2%	88.8%	2.68%	62.60%	37.40%	12.52
1980	108.7	12.7%	87.3%	2.61%	63.30%	36.70%	12.81
1981	49.3	18.9%	81.1%	0.93%	67.30%	32.70%	13.08
1982	24.1	9.3%	90.7%	6.17%	70.90%	29.10%	13.34
1983	42.7	6.3%	93.7%	6.42%	67.80%	32.20%	13.60
1984	132.4	7.6%	92.4%	8.60%	71.00%	29.00%	13.86
1985	168.5	6.1%	93.9%	6.06%	64.80%	35.20%	14.13
1986	238.1	5.6%	94.4%	4.27%	62.70%	37.30%	14.46
1987	183.6	11.5%	88.5%	2.21%	63.20%	36.80%	14.84
1988	93.8	8.3%	91.7%	2.88%	65.30%	34.70%	15.27
1989	45.5	10.7%	89.3%	3.79%	64.70%	35.30%	15.77
1990	33.1	10.6%	89.4%	5.59%	68.90%	31.10%	16.33
1991	28.1	10.4%	89.6%	6.00%	70.50%	29.50%	16.89
1992	52.4	13.1%	86.9%	4.89%	71.10%	28.90%	17.46
1993	6.1	14.1%	85.9%	7.08%	72.30%	27.70%	18.06
1994	9.6	14.8%	85.2%	7.57%	73.20%	26.80%	18.63
1995	8.6	14.8%	85.2%	8.98%	70.90%	29.10%	19.26
1996	7.3	13.0%	87.0%	10.15%	73.80%	26.20%	19.85

Source: Developed from background to the Budget (various issues), and World Tables diskette
Other direct taxes included estate duty, development tax and poll tax which were abolished in 1969