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**Abstract:** This paper reviews the recent economic performance of the Ugandan economy, with a particular emphasis on the impact of the reform program on agricultural development and poverty. The constituent elements of the reform program in place since 1987 are described, and the resulting impact on the real economy is critically assessed. There was a significant fall in the headcount poverty ratio between 1992/93 and 1999/00 although more recently this trend has reversed. Uganda experienced a strong deterioration in its external terms of trade as well as high population growth rates which make it more difficult to meet its poverty eradication objectives. Government policies set out in the Poverty Eradication Action Plan and the Plan for Modernization of Agriculture are initiatives in the right direction, but require sustained effort to ensure their implementation.

**Keywords.** Policy reform, agriculture, poverty, food security

**JEL classification.** Q13, Q18, Q19

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## **1 Introduction**

Uganda's post-independence<sup>1</sup> history is characterized by divergent economic conditions. The country enjoyed macroeconomic stability and robust growth from 1962 to 1970, with real GDP and real GDP per capita growth rates averaging 6 percent and 3 percent, respectively. This prosperity was disrupted by the political turmoil and economic mismanagement of the 1970s, during which the economic and social infrastructure was completely destroyed. During this period, GDP basically stagnated, with sharp falls recorded in the value-added in the industrial and monetary agricultural sectors.

After the economic and political decay of the 1970's a first attempt at concerted reforms was made in 1981, when the government received financial and technical assistance from the International Monetary Fund (IMF) and the World Bank (WB). This in effect marked the start of the Stabilization and Structural Adjustment Programmes (SAPs) and involved the implementation of a wide range of policy reforms that emphasised improvement in credit and monetary policies, reduction in public spending, trade and exchange rate adjustments, and institutional reforms aimed at improving the functioning of markets. These efforts were briefly rewarded as the economy recorded positive growth rates between 1981 and 1984 before plummeting in 1985. This programme was however short-lived, as it collapsed after barely four years following the government's failure to meet the programme benchmarks.

The second and more successful phase of reforms was launched in May 1987. The broad policy objectives of this reform effort focused on stabilization of the economy through the restoration of fiscal and monetary discipline; liberalization of consumer and producer prices; liberalization of interest rates within a restructured and more efficient financial system; liberalization of the foreign exchange market and the strengthening of the Balance of Payments position; liberalization of trade and compliance with other regional and international trade obligations; and the privatization and rationalization of state enterprises.

At the same time, agricultural sector-specific reforms and strategic programs aimed at reviving the agricultural sector and increasing rural incomes were also undertaken. The impact of these reforms on agricultural performance and poverty has been mixed. The overall poverty level as measured by the headcount ratio (the number of individuals below the poverty line) declined from 55.5 percent in 1992/93 to 31.5 percent in 1999/2000, but rose to 38.8 percent in 2002/03. Rural and urban poverty levels both followed a similar trend, declining from 59.4 percent and 28.2 percent in 1992/93 to 39.0 percent and 10.1 percent respectively, in 1999/00; but rising to 42.7 percent and 14.4 percent respectively, in 2002/03.

This paper provides an overview of the reform process in Uganda and the effect these reforms have had on the agriculture sector and poverty. The rest of the paper is structured as follows. Section 2 presents the background of the pre-reform performance and policies. Section 3 provides an in-depth analysis of the reform program and its implications on the agricultural sector while section 4 discusses the impact of the reform programme on macroeconomic performance, agriculture, poverty, and food security. Finally, a concluding remark is presented in section 5.

## **2 Performance of the economy and the policy framework before reform**

### **2.1 Performance of the economy**

The immediate post-independence period was an era of economic prosperity. Between 1962 and 1970, the average annual real GDP and real GDP per capita growth rates averaged 6 percent and 3 percent, respectively. The central government's fiscal position was strong as revenue increased faster than recurrent expenditure. The ever-increasing domestic revenues, together with non-bank domestic borrowing, helped finance a significant proportion of development outlays. Further, the national savings rate, which averaged 13 percent of GDP permitted the implementation of an ambitious investment program, without undue pressure on domestic prices or the balance of payments. The external position was healthy as the balance of payments was in surplus. Exports of goods and services stood at 25 percent of GDP, and foreign aid inflows were not substantial, largely because export receipts closely matched import needs (Atingi-Ego, 2003).

The impressive performance of the first decade of independence was followed by economic decline in the face of political instability and macro-economic mismanagement in the 1970s. The expulsion of the Asian business community in 1973, the effects of the oil crisis, and increasing international isolation further worsened the deteriorating economic conditions. The economic and social infrastructure was completely destroyed. With a low savings rate and limited external capital inflows, GDP basically stagnated in the mid 1970s, with sharp falls recorded especially in the value added in the industrial and monetary agricultural sectors. The only sector that recorded steady growth was the subsistence sector. The dramatic decline in economic performance towards the end of the 1970s saw real GDP per capita decline by more than 10 percent. These developments were in contrast to what was happening elsewhere in the world. For instance, the average per capita GDP in the Sub-Saharan Africa (SSA) region was growing at 2.0 percent per annum, while the High

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<sup>1</sup> Uganda attained political independence from Britain in October, 1962

Performance Asian Economies (HPAE) recorded average growth rates in real GDP per capita of over 6.0 percent per annum.

The combination of declining production in the monetary economy, the diversion of sales to parallel markets and reduced levels of import and export trade, all contributed to the erosion of the government's revenue base. In addition, revenue collection was also affected by the impact of the over-valued exchange rate and price controls, the poor financial performance and tax compliance of the expanded parastatal sector, and the ineffectiveness of the tax administration and collection procedures. Despite these revenue problems, little effort was made to restrict government expenditure. With access to external assistance restricted, the government increasingly resorted to borrowing from the central bank, which led to an uncontrollable pressure on domestic prices (Kasekende et al., 2002).

By 1979, the economy had reached an unprecedented state of decay. Real GDP growth was recorded at -11 percent per annum, fiscal and current account positions were in significant deficit, and the national savings and investment rates were less than 7 percent and 6 percent of GDP, respectively. The high inflation rate also meant that real interest rates were negative. The fixed exchange rate regime coupled with limited foreign exchange inflows resulted in a thriving parallel foreign exchange market with a significant foreign exchange premium (Kayizzi and Bigsten, 1999).<sup>2</sup>

## **2.2 Policy framework for the agricultural sector during the pre-reform era**

The post independence government adopted a highly restrictive and regulated policy framework. Export taxes, exchange controls, commodity price regulation/controls by state marketing boards, and the provision of subsidies and administered credit to the agricultural sector were the order of the day. The exchange rate was fixed and surrender requirements were imposed on commodity export earnings. There was state intervention in almost all aspects of agricultural production and marketing. This resulted in poor service delivery; shortage of agricultural inputs; infrastructural decay and deterioration of markets; and delayed payment of farmers, which in effect was a tax on farmers' income.

Agricultural marketing was almost exclusively managed by inefficient government marketing boards. The Coffee Marketing Board (CMB), Lint Marketing Board (LMB) and Produce Marketing Board (PMB), in collaboration with co-operatives, controlled the whole institution of agricultural marketing. Most of the agricultural support systems were either ineffective or delivered at high cost and were not sustainable without external support. The

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<sup>2</sup> The significant foreign exchange premium was an incentive for diverting resources from official channels to the parallel market.

corruption and bureaucracy that characterised the marketing boards increased overhead costs. Consequently, marketing boards absorbed a large percentage of world market prices, which resulted in very low producer prices. The commanding place of boards and co-operatives over the marketing system was favoured by government, which saw it as a workable institutional mechanism for the collection of tax revenue from agricultural export commodities (Bibangambah, 1992).

### **3 The Reform programme**

#### **3.1 Background to the reform process**

After the economic and structural breakdown of the 1970s, the first attempt at policy reforms was made in 1981, when government received financial and technical assistance from the International Monetary Fund (IMF) and the World Bank. This reform program aimed at restoring macroeconomic stability, reviving productivity and increasing efficiency in the productive sectors, increasing efficiency in the use of public sector resources, and creating incentives for both domestic and foreign investors. Driven by the desire to achieve these objectives, the government introduced wide-ranging economic policy reforms, which included among others the floating of the Uganda shilling, increasing producer prices for export crops, removal of price controls, rationalisation of tax structures and government expenditure, and increasing public sector accountability.

As a step towards liberalizing the foreign exchange market, a dual exchange rate system was introduced in August 1982. The rate at the first window was set by the Bank of Uganda and was reserved for debt servicing, imports for rehabilitation and payment costs for non-traditional exports. The rate at the second window was determined by a weekly auction of foreign exchange. While the window system was a step in the direction of greater liberalisation, it continued to imply heavy taxation of farmers, the main growers of export commodities. At one time when the gap between the windows was at its widest, coffee farmers were indirectly taxed at over 60 percent. Thus in retrospect, the window system was an alternative way of taxing poor farmers, especially since exporters of non-traditional goods, mostly richer and capital intensive producers, were allowed to transact at the more favourable rate at window 2 (Kayizzi and Bigsten, 1999). The two rates were unified in May 1984.

This reform programme collapsed in 1984 after the IMF and World Bank cut-off lending, following the government's failure to meet the programme benchmarks. In 1984 alone, there was a four-fold increase in public sector wages, bank credit to government increased by 70 percent and money supply increased by 127 percent. Further, foreign exchange controls were tightened in the face of insufficient foreign exchange inflows. Thus, the IMF's standby

arrangement collapsed in mid 1984, leading to a further deterioration of economic conditions.

Three months after assuming power in 1986, the National Resistance Movement (NRM) government sought to re-value the currency. There was a strong belief at the time that this would boost the 'buying power of the shilling', while also acting as a nominal anchor, which would hold down domestic prices. However, given continued war expenditures and the need to repair industries and other infrastructure, an artificially strong shilling was in effect an increase in controls. The government had to revert to rationing, based on a priority list of imports. A ministerial committee was set up to supervise foreign exchange allocation, headed by the Prime Minister. However, rent-seeking activities increased, thus impeding the recovery process (Kayizzi and Bigsten, 1999).

A re-direction of the reform process was therefore necessary. However, with socialist ideals in mind, the government went through an initial period of indecisiveness, as it tried to define an economic policy that would attract external support but remain within the socialist ethics. After the period of policy indecisiveness, the government with the help of the World Bank and the International Monetary Fund eventually embarked on the Economic Recovery Program (ERP) in May 1987. The broad policy objectives of this reform program focused on:

- (i) stabilization of the economy, through the restoration of fiscal and monetary discipline, notwithstanding the increasing demands for considerable outlays to rehabilitate the devastated infrastructure in the post conflict economy;
- (ii) liberalization of consumer and producer prices;
- (iii) liberalization of interest rates within a restructured and more efficient financial system capable of mobilizing domestic resources and increasing investments;
- (iv) progressive movement towards a realistic, market determined exchange rate within a system free of exchange restrictions and distortions;
- (v) strengthening of the Balance of Payments (BOP) and the normalization of relations with external creditors;
- (vi) liberalization of trade and compliance with other regional and international trade obligations; and
- (vii) the privatization and rationalization of state enterprises.

In the section that follows, we discuss the policy measures that have had a direct impact on the agricultural sector and poverty.



## **3.2 Policies and implications for agricultural sector**

### **3.2.1 Monetary and financial sector policy**

In consonance with the reform program, the conduct of monetary policy has since 1993 moved from the use of direct to indirect instruments. Although the policy framework provides for adequate private sector credit, the agricultural share has been dismal. Worse still, most of it is crop finance<sup>3</sup> rather than production credit. This anomaly is largely due to the nature of the agricultural sector, which is dominated by smallholder farmers, whose institutional setting has not been addressed by the financial intermediation process.

The reform program, which concentrated on economic stabilization efforts at the outset, was closely followed by financial sector reforms. Over the last decade, the government and Bank of Uganda have taken a deliberate move to strengthen, deepen and broaden the financial market, with the aim of creating a competitive financial sector that would support the objective of developing a market oriented economy. Interest rates have been liberalized and government interest in commercial banking divested. In order to strengthen the financial sector, the government intervened to close insolvent banks. This saw the closure of the Cooperative Bank, which was largely viewed as an agricultural bank, in 1998/99. In order to fill the gap created by these reforms, government is actively promoting the development of micro-finance institutions (MFIs). The MFIs are expected to fill the gap left by the formal financial institutions in providing financial services to the poor in both rural and urban areas. The legal framework for regulating and supervising micro-finance institutions was passed by parliament in November 2002. Notwithstanding this development however, credit is still inaccessible to the large majority of rural smallholder farmers who subsist primarily on agricultural production. Further, the terms of lending of MFIs are not conducive to the development of the agricultural sector since farmers are expected to start loan repayment before the harvest season.

### **3.2.2 Fiscal Policy Reforms**

Government has consistently pursued fiscal discipline since the inception of the reform program. The overall objective has been to contain the fiscal deficit to levels that can be financed on a sustainable basis while at the same time reducing government indebtedness to the banking system. To achieve this overall objective, government has adopted policy measures aimed at increasing the tax base/revenue and reducing government spending in order to contain the fiscal deficit. Government expenditure cuts have not spared the agricultural sector, as expenditure on the agricultural sector has continually declined.

### **3.2.3 Institutional reforms and the program for privatisation**

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<sup>3</sup> Crop finance is used for the financing of marketing activities rather than production activities.

Institutional reforms came in the latter phase of the reform programme due to opposition from both the general public and a section of policy makers, which indeed was a major impediment to accelerated reforms. However notwithstanding this delay, institutional and market reforms were expected to stimulate output and increase the proportion of marketed output for both the domestic and export markets; increase efficiency in the procurement of exports; and by paying cash on delivery, remove the inflation tax that is characteristic of late payment. Institutional and market reforms have consisted of:

- (i) Disbanding the Coffee Marketing Board (CMB) and Lint Marketing Board (LMB) monopolies in 1991, and the Produce Marketing Board (PMB) in 1993. Exporters are free to borrow directly from commercial banks to pay farmers instead of going through marketing boards. These market reforms have also been accompanied by the removal of restrictions on the movement of produce across districts.
- (ii) Divesting government interest in agricultural pricing and marketing activities and narrowing the role of government institutions to supportive activities such as quality control, the provision of market information, and research and development.
- (iii) Pricing policy has focussed on liberalisation of input and output prices by reducing or eliminating subsidies on agricultural inputs such as fertilisers and credit, re-aligning domestic prices with world market prices, eliminating pan-territorial and pan-seasonal pricing, and reducing exchange rate overvaluation. It was expected that this would benefit the poor smallholder rural households whose real incomes were assumed to rise in line with relative price movements.

#### **3.2.4 Trade and exchange rate**

Uganda's trade policy emphasizes the centrality of trade liberalization and export promotion. Trade and exchange rate liberalization was aimed at reversing the negative effects of inflation tax, high explicit taxes on exports, a damaging implicit tax arising from the exchange rate premium and the adverse effects created by the marketing monopoly of cooperatives and parastatals (Ssemogerere; 1998). The opening up of markets, deregulation and privatization were expected to spur productivity, foster export diversification and competitiveness and improve resource allocation. Increased exports could help to underpin rapid investment and growth and ease balance of payments constraints. Emphasis was placed on the promotion of non-traditional export production and processing for export in order to add value and encourage diversification as well as the integration of the economy.

Import and export procedures have been liberalized and licensing requirements abolished. Import controls were replaced with tariff-based protection and the temporary export

stabilization tax on coffee exports removed. A variety of initiatives aimed at addressing imbalances in the foreign exchange allocation system, encouraging sectoral diversification and restoring credibility of fiscal and monetary policy have also been undertaken. Trade and exchange rate liberalisation has played a vital role, complemented by the abolition of the marketing monopolies as well as the reduction of administrative red tape and the gradual introduction of a more rational tax and tariff structure.

Uganda continues to be strongly committed to supporting partnerships in global and regional economic integration, and benefits from various preferential sources of market access for agricultural exports in particular. Currently, the country is a member of the Common Market for Eastern and Southern Africa (COMESA)<sup>4</sup>, as well as a signatory to the ACP-EU Cotonou Agreement and the US African Growth and Opportunity Act (AGOA). Within the framework of these partnerships, Uganda's exports fully qualify for preferential tariff rates under COMESA and EAC, and also enter the European Union and US markets duty and quota free.

### **3.2.5 Export credits and guarantee schemes**

Ugandan exporters were constrained by the lack of access to reasonably priced working and investment capital. This was partly due to the absence of targeted export credit lines from lending institutions as well as lack of a sufficiently deep financial sector. Consequently, the credit market was characterized by high lending rates, which translated into high borrowing and production costs, thus undermining the competitiveness of the export sector. Besides, the limited loanable funds available to exporters from commercial banks were of a short-term nature. For the most part, long-term working capital was hardly available at reasonable rates to enable investors put up necessary export infrastructure. To partially address this constraint, the Bank of Uganda (BOU) decided to initiate a facility to provide medium to long-term financing to potential exporters through a number of credit lines and support schemes. These credit lines and schemes, supported by external donor agencies, provided loans to small and medium sized enterprises within the private sector through licensed banks.<sup>5</sup>

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<sup>4</sup> This is the major destination for Uganda's maize and beans exports.

<sup>5</sup> The main credit lines under these export schemes include: the Apex Private Sector Loan Scheme (Apex), which was designed to support small and medium scale private sector enterprises in manufacturing, agro-processing, services, and tourism activities; the Export Refinance Fund (ERF) designed to provide working capital to exporters of non-traditional exports; the Distressed Flower Project Fund (DFPF) established to rescue flower farms in 1999/2000 to mitigate working capital constraints; the Export Promotion Fund (EPF), established to assist exporters in promoting their respective exports and to identify new markets; and the Development Finance Fund (DFF) set up in 1986 mainly to support production in agricultural sector. This scheme is however being phased out because of its poor performance. Other export market credit schemes administered in the past have included the Investment Term Credit Refinance Fund (ITCRF); and the Cotton Sub-Sector Development Project (CSDP) fund. A number of support programmes have also been initiated by

### 3.2.6 Agricultural sector strategy

The current government policy for the agricultural sector is enshrined in the Programme for Modernization of Agriculture (PMA)<sup>6</sup>, which is a holistic strategic framework for increasing agricultural productivity, eradicating poverty, and improving food security through multi-sectoral interventions. The objectives of the PMA are to: increase incomes and improve the quality of life of poor rural smallholder subsistence farmers, improve household food security, provide gainful employment, and promote sustainable use and management of natural resources.

The Plan for Modernization of Agriculture (PMA) focuses greatly on eradicating poverty and food insecurity through transforming rural smallholder subsistence agriculture into commercial agriculture. The broad strategies for achieving PMA objectives are:

- Making poverty eradication the overriding objective of agricultural development;
- Deepening decentralization to lower levels of local governments for efficient service delivery;
- Removing direct government involvement in commercial aspects of agriculture and promoting the role of the private sector by putting in place the necessary incentives to attract private sector participation in commercial agriculture;
- Supporting the dissemination and adoption of productivity-enhancing technologies through agricultural extension services and sensitisation;
- Guaranteeing food security through the market and improved incomes, thereby allowing households to specialise, rather than through household self-sufficiency;
- Ensuring that all intervention programmes are gender-focused and gender responsive;
- Promoting a two-way planning and budgeting process by empowering local government and enabling them to influence public policy and to allocate resources to alleviate location-specific constraints in a non sectoral manner; and
- Ensuring the co-ordination of the multi-sectoral interventions to remove any constraints to agricultural modernization.

The PMA is implemented within the existing macroeconomic framework. The maintenance of macroeconomic stability with low inflation will continue to be the central objective of the

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the Bank of Uganda and these include the Export Credit Guarantee Scheme launched in December, 2000 to support the export of non-traditional products originating from Uganda with 35 percent Ugandan content; the African Rural and Agricultural Credit Association (AFRACA); a DANIDA funded Rural Financial Services Component (RFSC); and the Capacity Building Programme (CBP), which wound up in December 2000, but had been established with the intention of building the capacity of micro-finance institutions in rural areas in order to enhance delivery of rural financial services.

<sup>6</sup> The PMA was launched in 2000. The policies discussed below are yet to take full effect. If they do, then hopefully the situation on the ground will change.

Government's current and future economic policies. This will be vigorously pursued during the implementation of the PMA.

In the medium-term, the main thrust for public action in the modernization of agriculture is:

- Institutional reform and improved efficiency and effectiveness in service delivery through improved budgetary allocations and capacity building;
- Effective policy formulation process that will ensure strategic planning and provision of regulatory and advisory services;
- Agricultural research and technology development;
- Agricultural statistical data collection, analysis and dissemination;
- Provision of market information for agricultural inputs and outputs;
- Epidemic disease and pest control;
- Formulation of land use policy and implementation of the Land Act;
- Development of technologies for soil fertility management, water conservation and environmental protection;
- Construction of infrastructure including feeder roads, rural electrification, and fish landing sites;
- Capacity building for irrigation and water harvesting including construction of community valley dams;
- Capacity building for rural micro finance services and risk management;
- Capacity building for the production of breeders' seeds, planting and stocking materials including fish fry; and
- Capacity building for marketing and agro-processing infrastructure; and capacity building for agricultural education.

A National Agricultural Advisory Service (NAADS) has been created to co-ordinate service provision to subsistence farmers. The PMA gives agricultural extension a new lease on life. It recognises the central role for decentralised, demand-driven extension services in the sector's development and it will be backed by public funds through the NAADS program. The responsibility for extension will be further delegated from districts to sub-counties.

The PMA is intended to be the central mechanism through which one of the pillars of the Poverty Eradication Action Program – 'directly increasing the ability of the poor to raise their incomes' – is supported. It is thought that modernising agriculture will contribute to increasing the incomes of the poor by raising farm productivity, increasing the share of agriculture production that is marketed, and creating on-farm and off-farm employment. The PMA takes the position that the livelihood of the poor farmers will be improved by engaging

with the market. In addition, the poor will benefit from lower food prices and increased opportunities for employment (Kidd, 2001).

The PMA notes that transforming subsistence agriculture requires addressing two types of constraints: productivity related constraints and constraints related to governance. The productivity related constraints noted in the PMA include a broad range from lack of sufficient food, lack of land and soil fertility, lack of inputs, lack of skills and knowledge, lack of capital and access to credit, and market problems, to poor roads and transport network. Insecurity is also highlighted as a productivity-related constraint with regard to the loss, for example, of oxen that are used for ploughing. Broad governance issues addressed include insecurity of persons and property, corruption, lack of accountability and transparency, poor delivery of basic public services, weak local leadership, and lack of voice among the majority of producers. It is therefore recognised that good governance and security (the second pillar of the PEAP) are important pre-conditions for agricultural modernisation (Kidd, 2001).

The PMA has managed to gain broad support from various agencies and from most donors, who are working towards basket finance mechanisms to fund the plan. However, many of the PMA programs need more resources and more prioritisation. For example, the NAADS program currently reaches only 30-35 percent of all districts and does not operate in all the sub-counties of the districts it reaches. There is also lack of coherence between the PMA and other programs aimed at improving productivity of the agricultural sector, like the Strategic Exports Program (SEP). While the PMA is sector wide and has a more holistic approach, the SEP is supply chain-driven and focuses on specific crops (IMF/IDA, 2003).

Although the poverty impact of the PMA still needs to be assessed, it is clear that the program needs to focus more on helping the poor especially women who face time constraints since they are expected to engage in both agricultural productivity and household tasks; and they also do not receive revenues from the cash crops they produce that the men misappropriate (Uganda Poverty Status Report, 2003).

### **3.2.7 Land reform**

The enactment of the Land Act in 1998 was intended to enhance tenure security. This would have made it possible for the majority of squatters to acquire improved land tenure security through the acquisition of certificates of customary ownership and certificates of occupancy for tenants. However, notwithstanding these developments, the institutional framework for the effective implementation of the Land Act 1998 is not yet in place, as institutions for its implementation have to be developed right from the grass root level. The issue of land

ownership and inheritance by women who are key stakeholders in agricultural production has also not yet been resolved. In addition, the lack of a centralised land registry results in difficulties in getting land title deeds in rural areas.

### **3.2.8 Research**

The National Agricultural Research Organisation was established in 1992 with the objective of undertaking, promoting and co-ordinating research in aspects pertaining to agricultural development. The benefits of research are slowly trickling in for smallholder farmers. Most rural smallholder coffee farmers have already adopted improved coffee varieties such as clonal coffee. Improved seeds are also being used as is evidenced by improved productivity.

### **3.2.9 Poverty reduction strategy**

Poverty reduction is a fundamental objective of Uganda's development strategy, in which government has resolved to reduce the proportion of the population living in absolute poverty from 44 percent in 1997 to below 10 percent by the year 2017. Detailed programmes for achieving this goal are being developed by government. The Poverty Eradication Action Plan (PEAP), which adopts a multi-sectoral approach to poverty eradication, is the guiding framework for eradicating mass poverty in Uganda. It recognises the multi-dimensional nature of poverty and the interlinkages between influencing factors. The current PEAP focuses on five priority areas:

- Economic management which focuses on the maintenance of macroeconomic stability, fiscal consolidation, boosting private investment, and debt sustainability;
- Production, competitiveness and incomes. This focuses on the modernisation of agriculture, preservation of the natural resource base, infrastructure development and enhancing private sector skills and business development;
- Security, conflict resolution and disaster management. This is aimed at ending rebel insurgency, ending cattle rustling, and dealing with internal displacement which is a major source of distress in Uganda;
- Governance which is aimed at improving human rights and democratisation, the development of a better legal system, and transparency, accountability and the elimination of corruption; and
- Human development. This focuses on primary and secondary education, improving health outcomes, increasing people's ability to plan the size of their families and adult literacy.

The PEAP provides a comprehensive framework for overall development and for sector and district policies and plans, and donor and NGO investment programmes. The Plan for Modernisation of Agriculture (PMA) fits within this framework. Further, in recognition of

the multi-dimensional nature of reducing poverty in the agriculture sector, the PMA depends on involvement of other sectors and on partnerships with farmers, commercial private sector, civil society and donors. Government has already begun the implementation of the PEAP using the Medium Term Expenditure Framework (MTEF), which integrates policy-making with planning and budgeting. In the MTEF, expenditures are based on strategic priorities and current budget constraints based on Sector Wide Approaches (SWAPS) to sectoral policy reform, strategic reprioritisation and investment programming. In addition, the Poverty Action Fund (PAF), created in 1998, has enabled the Government to double the resources available to programmes within the PEAP. In order to eradicate poverty effectively, priority action areas have been identified under the PEAP, which include primary health care, roads, primary education and rural water, and the transformation of agriculture. This focus on agriculture provides an opportunity for poverty reduction because the sector engages approximately 80 percent of the Ugandan workforce, the majority of who are poor.

#### **4 Impact of the reform programme on the economy**

##### **4.1 Macroeconomic performance**

###### **4.1.1 Sectoral Composition of Economic Activity**

Agriculture is the mainstay of the Ugandan economy currently accounting for over 42 percent of GDP and employing over 80 percent of the labour force, either directly through agricultural production or indirectly through agribusiness and agro-processing. The other promising sector is the service sector whose share has been continuously rising. The industrial sector is still small and its output accounts for only about 20 percent of GDP.

**Table 4.1: GDP contribution by sector, 1999/00 - 2003/4**

<b>Sectors</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/3</b>	<b>2003/4</b>
<b>Agriculture</b>	40.9	40.7	39.7	38.7	38.5
<b>Industry</b>	18.6	18.7	19.0	19.5	19.4
<b>Services</b>	40.5	40.6	41.2	41.8	42.0

Source: Uganda Bureau of Statistics

Since 1999/00, the share of agriculture has declined by 2.4 percent, while the shares of industry and services have increased by 0.8 percent and 1.6 percent respectively. Although agricultural output increased in 2003/04 as compared to the previous year, its contribution to GDP has continued to decline. The contribution of industry has stagnated at about 19.5 percent.

###### **4.1.2 GDP growth**



Since the onset of the reform programme, the economy has enjoyed relatively buoyant growth. In 2003/04, the economy is estimated to have grown by 5.8 percent, well within the average growth rate registered in the last 15 years (see table 4.1). This growth rate was achieved in the midst of a harsh international environment manifested in deteriorating terms of trade, which affected the growth of the productive sectors including agriculture, and the economy's position vis-à-vis the rest of the world.

**Table 4.2: GDP Performance by Sector (Percentage Growth Rates)**

Sector	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
<b>Monetary</b>	8.1	6.1	5.3	7.4	5.9	6.0
Agriculture	6.6	5.2	4.5	5.7	3.9	5.6
Of which: Cash crops	9.3	7.0	-4.9	7.4	4.6	1.8
Food crops	7.5	5.9	8.2	5.7	3.7	7.7
Mining and quarrying	14.5	6.3	10.1	11.1	2.7	-1.2
Manufacturing	14.1	3.6	8.9	5.3	4.0	4.0
Electricity & water	5.3	7.9	8.2	5.4	4.7	6.8
Construction	11.2	7.1	1.8	12.5	12.9	8.1
Wholesale and retail	10.9	1.9	6.3	6.7	4.1	4.8
Hotels & restaurants	13.8	18.7	7.1	18.1	7.5	7.9
Transport & communications	6.9	8.5	9.6	12.4	14.9	14.4
Community services	4.2	8.6	3.5	6.4	4.8	4.5
<b>Non monetary</b>	5.4	6.3	5.1	2.6	1.3	4.9
Agriculture	4.9	6.1	4.6	1.7	0.1	4.7
Construction	3.4	3.4	3.4	3.4	3.5	3.4
Owner Occupied Dwellings	8.5	8.0	8.0	7.0	6.5	6.0
<b>TOTAL GDP</b>	7.5	6.2	5.3	6.3	4.9	5.8
<b>PER CAPITA GDP</b>	3.9	2.6	1.8	2.8	1.4	2.2

Source: Uganda Bureau of Statistics.

The smaller sectors, such as mining and quarrying; manufacturing; hotels and restaurants; and construction have registered the fastest growth, averaging 7.2, 6.7, 12.2 and 8.9 percent per annum, respectively, over the last six years. Community services (education, health and general government services) grew at an average rate of 5.3 percent over the same period, and in 2003/4 accounted for 19.1 percent of GDP. The growth of community services is largely on account of increases in donor-supported public expenditures that target these services.

#### 4.1.2 Inflation outturn

Prudent macroeconomic management has helped deliver macroeconomic stability. The inflation out-turn in the 1990's has been impressive, being maintained on average at single digit levels. From the volatile trend in consumer prices during the 1980s, which led to a headline annual inflation rate of 250 percent in 1987, the annual inflation rate has declined to less than 10 percent per annum. The transition from high to low inflation was to a large

extent achieved through government's commitment to fiscal restraint and the cautious monetary stance adopted by the Bank of Uganda.

### **4.1.3 Savings and investment**

Although savings have maintained an upward trend, the savings rate remains low. As a share of GDP gross domestic savings rose from 6.9 percent of GDP in 1997/98 to 8.8 percent 2003/04 while gross national savings, which include private transfers and grant financing of the government budget, rose from 12.3 percent of GDP to 20.4 percent of GDP over the same period. The decomposition of gross domestic savings into private and public shows that private savings have maintained an upward trend while public savings have been declining. The upward trend in private savings is in line with the recovery of the financial sector as reflected in the increased levels of private sector shilling deposits with the banking system, which have grown by over 100 percent during the same period. In the rural sector however, because of limited access to financial services, the asset composition of households is to a large extent determined by the economic activity of the area. Savings are hence in the form of commodity stocks, livestock and land. This in turn is reflected in the magnitude of the non-monetary economy, which constitutes to efficiency loss in the economy.

The decline in public savings on the other hand is largely on account of increased government expenditures to finance poverty reduction programs. This notwithstanding, the government's medium-term fiscal program aims at reconciling the provision of adequate resources for the essential poverty reduction programs with fiscal sustainability. It is therefore envisaged that the overall deficit will gradually decline, leading to an improvement in public savings.

Gross domestic investment has on average exhibited an upward trend, rising to 22.2 percent of GDP in 2003/04. A decomposition of domestic investment into public and private shows that while public investment averaged about 5.0 percent of GDP since 1997/1998, private investment rose from 11.2 percent of GDP to 16.9 percent of GDP during the same period. It is worth noting that gross domestic savings have on average lagged behind gross domestic investment by about 13 percentage points of GDP. The gap between gross domestic savings and investment has largely been financed by highly concessional loans from multilateral financial institutions, such as the African Development Bank (AfDB) and the International Development Association (IDA). Savings and investment trends are shown in table 4.2

**Table 4.3: Savings and Investment trends (percent of GDP)**

Period	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Gross Domestic Savings	6.9	7.9	6.0	5.4	4.3	6.4	8.8
Public	-2.3	-1.2	-2.4	-2.6	-3.0	-2.6	-1.9
Private	9.2	9.2	8.4	8.0	7.3	9.0	10.7
Gross National Savings	12.3	12.4	10.9	13.1	13.5	15.2	20.4
Gross Domestic Investment	15.9	19.2	19.6	17.7	18.9	20.1	22.2
Public	4.7	5.4	6.4	5.5	5.3	4.7	5.2
Private	11.2	13.8	13.2	12.2	13.7	15.4	16.9

*Source: Authors' computations from government national statistics*

#### 4.1.4 Export Performance

The export sector remains highly concentrated in commodity exports, with coffee as the main export crop, although its share in total export receipts declined from 77 percent in 1994 to about 17 percent in 2004. Merchandise exports rose from US\$423.4 million in 1997/98 to US\$554.4 million in 2003/2004, representing an increase of only 31 percent. This increase is largely on account of the improved performance of non-coffee exports as coffee export receipts declined from US\$268.9 million in year 1997/98 to US\$114.1 million in 2003/04. The fall in coffee export receipts was caused by the fall in the realized world market unit prices, which declined from US\$1.6 per Kg to US\$0.8 per Kg over the same period. The persistent fall in international commodity prices has led to a consistent downward trend in the terms of trade. Whereas import prices displayed general stability, realized export unit values declined almost across the board. The trade and current account balances have persistently been in deficit and have worsened over the years.

The main export destinations have shifted to a more balanced position as opposed to the 1980s and early 1990s, when 80 – 90 percent of exports were destined for the developed countries. The European Union, COMESA and Asia absorbed 35 percent, 27 percent and 6 percent of total exports in 2003/04, respectively. If sustained, this shift would reflect some success in market diversification, thus reducing over-reliance on a few markets.

#### 4.1.5 External Debt

The stock of outstanding and disbursed external debt is estimated at US\$ 4.47 billion as at end June 2004, an increase of 25 percent over the June 2000 level. As a ratio of GDP, the total debt stock stood at about 60 percent between June 2000 and end June 2004. Over 82 percent of this debt was owed to multilateral institutions, in line with government's debt strategy, which required new borrowing to be on highly concessional terms.

The total debt stock continued to rise in spite of debt strategies aimed at reducing the debt burden. HIPC I and II were supposed to put Uganda on a sustainable Net Present Value of

debt-to-export footing of less than 150 percent. However, by June 2004, this ratio had risen to 307 percent. The ratio of debt service (including IMF maturities) to total exports of goods and non-factor services stood at 16 percent in the 2003/04 only marginally down from 17 percent at end 2000/01.

Uganda received US\$ 126 million from the Multilateral Debt Relief Initiative (MDRI) of the IMF, of which US\$30.0 million was credited to the Consolidated Fund account during 2005/6. Arrangements are underway with the World Bank (WB) and African Development Bank (AfDB) to finalise the delivery of the Multilateral Debt Relief Initiative (MDRI), although the relief from the two institutions is not expected to result in significant increases in net resources.

## **4.2 Agricultural Sector**

### **4.2.1 Agricultural pricing and marketing**

Agricultural production, pricing and marketing reforms were in part aimed at improving the competitiveness and efficiency of agricultural markets. The basic premise was that improving the incentive structure for smallholder farmers through higher prices and better functioning markets would lead to a positive supply response thereby raising agricultural output, income and food security status of the smallholder farmer. Although at the macro level, the expected benefits have been realized to a great extent, market imperfections have reduced the benefits realized by the rural smallholder farmers. Information asymmetry and lack of indicative prices has led to the exploitation of rural smallholder farmers by private traders who are bent on maximizing profits while agricultural input prices have risen substantially (Opolot, Wandera and Atiku; 2003).

### **4.2.2 Improvement in rural and marketing infrastructure**

Although over the last 10 years government has tried to improve the infrastructure in rural areas by investing in the construction and maintenance of rural feeder roads, a lot still remains to be done. Currently, it is estimated that 25 percent of the feeder roads are impassable during the rainy season. This limits the ability of the smallholder rural farmers to deliver their produce to the market, increases the operational costs of the middlemen, which are in turn passed on to the rural producers in the form of low prices for their produce. Arrangements have been put in place to address the repair and maintenance of roads especially the feeder roads.

Issues related to other market infrastructure have also not been adequately addressed. Presently, although rural markets are operational in most parts of the country, such markets do not have the minimum facilities, such as roofed structures to guard against rain and other

weather conditions; lockable secure storage; and other convenience services for buyers and sellers that help enhance a hygienic environment for foodstuffs. The absence of these facilities discourages both buyers and sellers from distant areas and thus reduces the horizontal integration of markets.

### **4.2.3 Agricultural trade performance**

Developments in agricultural exports which account for over 80 percent of Uganda's export earnings are shown in table 4.3. Fish exports have gained prominence since 2000 and currently account for about 21 percent of the total value of exports while coffee<sup>7</sup> accounts for about 19 percent of exports. Other major exports are tobacco that accounts for 7.2 percent of the total value of exports; tea that accounts for 6.1 percent; and cotton and flowers that each account for about 3.4 percent of the total value of exports.

Coffee export earnings have been on the decline since 2000. This decline is attributed to the severe decline in international coffee prices and the ravaging of farms by the coffee wilt disease in the most recent period. Besides, the failure to capture more value-added on coffee through processing has led to the continued loss of international market shares. This phenomenon underscores the need for commodity-exporting countries like Uganda to capture a larger share of the international market through value-addition.

Cotton exports have been low both in price and quantity in the last 10 years. This is mainly attributed to a fall in the international cotton price and political instability in the major cotton growing areas as well as heavy dependence on weather. On the other hand, tea has registered steady increase in both price and volume since 1985 while the performance of tobacco has been mixed although they have increased over the past two years.

The major food exports are fish, maize, sorghum, beans, fruits and vegetables and simsim (sesame seeds).<sup>8</sup> Fish is the largest food export accounting for about 80 percent of total food exports. Uganda's food exports have been increasing since 2000, mainly on account of fish

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<sup>7</sup> Uganda is the second largest coffee producer in Africa after Côte d'Ivoire and ranks ninth in the world, accounting for 3 percent of the world's coffee production. Coffee provides employment to approximately five million Ugandans, either directly or indirectly. Smallholder farmers produce 99 percent of total coffee output.

<sup>8</sup> Food exports, particularly maize and beans are exported through three channels: formal cross border trade, procurement by international aid agencies (especially WFP, EU and IRCC) for relief supplies to internally displaced people as well as to neighbouring countries, and informal cross border trade. There is very little data available on informal cross border trade, which usually involves quantities of less than US\$ 1000 in value. Consequently, official export data includes on formal trade and procurement by international aid agencies.

exports. Exports of cereals have also increased since 1995 mainly as a result of increased volumes. The price has been volatile but notably lower over the three years since 2000 than the average from 1995 to 2000. Exports of fruits and vegetables have also increased. The primary markets for Uganda's fruits and vegetables are the United Kingdom, Belgium, and Sweden.

**Table 4.4: Uganda's agricultural exports by commodity**

Commodity	Period average 1995-00	2001	2002	2003	percentage of total exports 2001-03
<b>Total (000 US\$)</b>	<b>541,139</b>	<b>475,554</b>	<b>480,696</b>	<b>563,023</b>	
<b>Coffee</b>					<b>19.0</b>
Value ('000 US\$)	303,361	97,629	96,635	99,109	
Quantity ('000 Mt)	207.97	183.34	201.59	143.59	
Unit value (\$/ton)	1458.20	534.09	479.36	689.97	
<b>Cotton</b>					<b>3.0</b>
Value ('000 US\$)	15,106	14,727	18,100	19,753	
Quantity ('000 Mt)	11.20	13.88	22.58	18.14	
Unit value (\$/ton)	1.35	1.06	0.80	1.09	
<b>Tea</b>					
Value ('000 US\$)	24,084	30,431	25,843	36,270	<b>6.1</b>
Quantity ('000 Mt)	19.24	30.24	29.46	34.07	
Unit value (\$/ton)	1.66	1.01	0.87	1.07	
<b>Tobacco</b>					<b>7.2</b>
Value ('000 US\$)	14,093	31,200	36,170	38,407	
Quantity ('000 Mt)	7.32	14.46	20.18	25.50	
Unit value (\$/ton)	2.24	2.16	1.79	1.51	
<b>Fish</b>					<b>21.1</b>
Value ('000 US\$)	NA	95,962	106,190	112,378	
Quantity ('000 Mt)	NA	57.46	51.78	54.74	
Unit value (\$/ton)	NA	2.64	3.24	3.24	
<b>Flowers</b>					<b>3.4</b>
Value ('000 US\$)	NA	14,312	15,568	21,659	
Quantity ('000 Mt)	NA	3.72	4.44	5.44	
Unit value (\$/ton)	NA	3.85	3.51	3.98	
<b>Cereals (Maize and sorghum)</b>					<b>2.3</b>
Value ('000 US\$)	8,453	10,973	11,581	12,999	
Quantity ('000 Mt)	27.72	47.39	72.98	58.25	
Unit value (\$/ton)	1,458.20	534.09	479.36	689.97	
<b>Beans</b>					<b>0.3</b>
Value ('000 US\$)	5,019	1,607	2,513	566	
Quantity ('000 Mt)	19.02	6.83	8.96	11.48	
Unit value (\$/ton)	0.27	0.23	0.28	0.49	
<b>Simsim</b>					<b>0.2</b>
Value ('000 US\$)	3,174	795	509	2,183	
Quantity ('000 Mt)	4.88	1.59	1.39	5.92	
Unit value (\$/ton)	0.65	0.50	0.37	0.37	
<b>Fruits and vegetables</b>					<b>0.8</b>
Value ('000 US\$)	1,962	3,342	3,998	4,896	
Quantity ('000 Mt)	3.94	4.80	7.72	11.50	

Unit value (\$/ton)	0.50	0.70	0.52	0.43
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Source: *Balance of Payments Statistics, Bank of Uganda*

### 4.3 Poverty and food security

#### 4.3.1 Poverty

The evidence from successive household surveys shows that, on average, poverty has been on a decline. Overall poverty levels<sup>9</sup> as measured by the headcount ratio (the number of individuals below the poverty line) declined from 55.5 percent in 1992/93 to 35.1 percent in 1999/00 before rising to 38.8 percent in 2002/03. Rural and urban poverty both followed similar trends as shown in table 4.4. In particular, rural and urban headcount ratios declined from 59.4 percent and 28.2 percent in 1992/93 to 39.0 percent and 10.1 percent respectively in 1999/00; but rose to 42.7 percent and 14.4 percent respectively in 2002/03. Okidi et al. (2004) argue that the observed reduction in poverty is attributable to the recovery and growth strategies that have been pro-poor.

**Table 4.5: Changes in rural poverty (Headcount ratios – percent), 1992/3 – 2002/3**

Location	1992/3	1993/4	1994/5	1995/6	1997/8	1999/0	2002/3
<b>National</b>	<b>55.5</b>	<b>52.2</b>	<b>50.1</b>	<b>48.5</b>	<b>44.0</b>	<b>35.1</b>	<b>38.8</b>
Rural	59.4	56.7	54.0	53.0	48.2	39.0	42.7
Urban	28.2	20.60	22.3	19.5	16.3	10.1	14.4
<b>Central</b>	<b>45.5</b>	<b>35.6</b>	<b>30.5</b>	<b>30.1</b>	<b>27.7</b>	<b>20.1</b>	<b>22.3</b>
Rural	52.8	43.4	35.9	37.1	34.3	25.6	27.6
Urban	21.5	14.2	14.6	14.5	11.5	7.0	7.8
<b>West</b>	<b>52.8</b>	<b>53.9</b>	<b>50.4</b>	<b>46.7</b>	<b>42.0</b>	<b>28.0</b>	<b>32.9</b>
Rural	53.8	55.3	51.6	48.3	43.2	29.4	34.3
Urban	29.7	24.7	25.4	16.2	19.9	5.6	18.6
<b>East</b>	<b>59.2</b>	<b>58.0</b>	<b>64.9</b>	<b>57.5</b>	<b>54.3</b>	<b>35.0</b>	<b>46.0</b>
Rural	61.1	60.2	66.8	59.4	56.8	39.2	48.3
Urban	40.4	30.5	41.5	31.8	24.8	17.4	17.9
<b>North</b>	<b>71.3</b>	<b>69.3</b>	<b>63.5</b>	<b>68.0</b>	<b>58.8</b>	<b>64.8</b>	<b>63.0</b>
Rural	72.2	70.7	65.1	70.3	60.7	66.7	65.0
Urban	52.6	46.2	39.8	39.6	32.6	30.6	38.9

Source: *Ministry of Finance Planning and Economic Development*.

A decomposition of the analysis on a regional basis indicates that poverty reduced greatly almost across the board with the exception of the northern region. Between 1997 and 2000, the north was the only region where consumption expenditure declined (Okidi, 2004). The northern region has also maintained the highest incidence of poverty of not less than 59 percent. Although between 1999/2000 and 2002/03 the poverty headcount in the northern

<sup>9</sup> The “official” poverty line used by the Uganda Government was derived by Appleton et al. (1999). It is anchored on the cost of meeting the basic needs (basic needs approach to poverty). Appleton et al. (1999) used

region remained about the same, it rose markedly in other parts of the country. The higher level of poverty in the north is largely a result of the civil conflict that has raged on for more than 18 years. This has not only destroyed the economic infrastructure, rendering the region economically unproductive, but has also displaced the population from the rural areas, and rendered it unproductive.

Notwithstanding the fact that both rural and urban poverty had similar trends, poverty in Uganda still remains a predominantly rural phenomenon and is particularly very pronounced among crop farmers. Rural poverty in Uganda is largely caused by lack of access to productive assets, complementary inputs, low agricultural productivity and the absence of social safety nets. On the other hand, urban poverty is due to the high level of unemployment in the urban areas, and yet rural-urban migration has caused the influx of a relatively less educated population to the urban areas.

Between 1997/98 and 1999/2000 consumption expenditure per adult equivalent for the richest 10 percent of the population grew by 20 percent while that of the poorest 10 percent grew by only 8 percent. In the 2000-2003 period the richest 20 percent of Ugandans experienced a 9 percent increase in consumption expenditure while the rest of the population reported a decline in consumption expenditure. This translated into the reported increase in poverty and the rise in welfare inequality from a Gini coefficient of 0.40 in 1999/2000 to 0.43 in 2002/2003 (Okidi, 2004).

The recent increase observed in headcount poverty during the last household survey may be attributable to the decline in coffee prices and the deterioration of the internal terms of trade between the agricultural sector and the industry and services sectors (Okidi et al., 2004). Soil fertility has also been declining mainly as a result of limited and declining use of fallow, limited use of inorganic and organic sources of soil nutrients, and other poor land management practices (Nyonya et al., 2004). These factors together have directly reduced incomes of rural agricultural households.

Fish and flower exports have to some extent offset the decrease in coffee exports. However, these items do not have the same poverty impact because unlike coffee which is the main source of livelihood for the majority of smallholder rural households in the central and western regions of the country, fish and flower exports only benefit a small segment of the population (Okidi et al., 2004).

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the method of Ravallion and Bidani (1994). Appleton (2001) establishes that the resultant national poverty line roughly corresponds to the "dollar a day" line commonly used when making cross-country comparisons.



Large and extended family linkages have also contributed to rural poverty. Uganda's population growth rate averaged 3.4 percent per annum between 1991 and 2002. The average Ugandan woman gives birth to seven children in her lifetime. Fertility levels of this magnitude have significant implications for female productivity in terms of time spent working to raise their income, higher levels of infant mortality and poor maternal health. Moreover, the cost of caring for large families, particularly when sick, directs scarce resources away from other productive investments, uses up savings and leads to the sale of productive assets. As a result of the high population growth rate, real GDP per capita growth has remained below the 5 percent level set out in the Poverty Eradication Action Plan as desirable for achieving the poverty eradication objectives by 2017. Even if real GDP growth returns to a growth path of 7 percent per annum, population growth rates will need to slow down to just under 2 percent per annum to enable a real GDP per capita growth rate of 5 percent per annum. Short of this, poverty eradication targets are not likely to be met since it is the poor who have the largest families.

#### **4.3.2 Food security**

The need for food security in Uganda is enshrined in the constitution, which in part states:

*“The state shall take appropriate steps to encourage people to grow and store adequate food; establish national food reserves; and encourage and promote proper nutrition through mass education and other appropriate means in order to build a healthy state.”*

The country has the capacity to produce enough food (staples, meat, edible oil, fruits and vegetables) for domestic consumption and some surplus for export. In spite of this potential, however, over half the population does not have access to sufficient food. The vulnerability of agricultural production to natural and weather calamities creates food insecurity. Worse still, there are no national food reserves to cater for unexpected shortages. Insecurity in the northern part of the country has also contributed to the worsening food security situation in the region.

The World Food Programme (WFP) activities in Uganda are aimed at supporting the Government's poverty reduction efforts by targeting those areas assessed as Uganda's poorest and most food insecure; namely the north and north east.<sup>10</sup> The WFP is also supporting the National Food Strategy through a new Protracted Relief Recovery Operation for Uganda, to address the underlying problems of food insecurity as well as providing emergency food aid to drought-affected persons, refugees and internally displaced persons (IDPs) to ensure that their nutritional status is maintained.

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<sup>10</sup> Because of the 17-year-old insurgency in the North and cattle rustling by the Karamojong warriors that is rampant in the Northeast, these regions are not able to produce enough food to feed themselves.

Own production constitutes a significant portion of the consumption basket in rural areas. The purchase of food from income derived from the sale of cash crops, provision of labour services, and any remittances also help supplement own food production. The seasonal nature of production and the vulnerability to drought given that agriculture is rain fed necessitates an effective post-harvest food system, if the stability of food supplies is to be maintained throughout the year. Unfortunately, this is deficient in smallholder rural households, leading to instability in food supplies and food insecurity. In the urban areas, food is solely purchased from income derived from the sale of labour services. Unemployment therefore increases the vulnerability of the poor urban households to food insecurity. The food insecurity indicators are discussed below.

#### 4.3.2.1 Dietary Deficiency and intake

Dietary deficiency rates indicate that the situation has worsened since 1992. The proportion of the population receiving less than 60 percent of the required calories rose from 32.1 percent in 1992/93 to 44.3 percent in 1999/2000. Similarly the proportion of the population receiving less than 60 percent of the required protein and iron rose from 18.6 percent and 7.5 percent to 20.0 and 12.5 percent respectively as shown in table 4.5. Trends in the population receiving less than 75 percent of the required carbohydrates, proteins and iron are also shown in table 4.5.

**Table 4.6: Dietary Deficiency**

Period	Below 60percent of the required			Below 75percent of the required		
	Calories	Proteins	iron	Calories	Proteins	Iron
1992/93	32.1	18.6	7.5	49.5	29.3	19.2
1999/00	44.3	20.0	12.5	62.3	31.4	22.6

*Source: Uganda Demographic and Health Surveys*

The mean dietary intake also deteriorated between 1992/93 and 1999/00. The mean calorie intake per person declined from 1886.8 calories per day to 1641.1 calories per day. Protein and iron intakes also declined as shown in table 4.6.

**Table 4.7: Mean Dietary Intake**

Dietary Category	1992/1993			1999/2000		
	Calories	Proteins <sup>1</sup>	Iron <sup>2</sup>	Calories	Proteins <sup>1</sup>	Iron <sup>2</sup>
Actual Amount	1,886.8	47.3	17.3	1,641.1	46.2	14.9
Recommended	2,161	38.5	11.8	2,161	38.5	11.8

<sup>1</sup> Grams

<sup>2</sup> Milligrams

*Source: Uganda Demographic and Health Surveys*

### 4.3.2.2 Child malnutrition

The child malnutrition indicators in rural areas improved only marginally between 1995 and 2000. Stunting decreased from 40.3 percent to 39.9 percent while wasting decline from 5.4 percent to 4.1 percent. Details of child malnutrition indicators by place of residence indicate that rural malnutrition is more severe in rural areas. In terms of gender, males are more malnourished than females as shown in table 4.7.

**Table 4.8: Child malnutrition indicators, 1995 and 2000**

PREVALENCE	PLACE OF RESIDENCE						GENDER			
	1995			2000			1995		2000	
	Rural	Urban	National	Rural	Urban	National	Male	Female	Male	Female
Stunting	40.3	22.5	38.3	39.9	26.5	39.1	40.0	36.7	40.4	36.9
Wasting	5.4	4.9	5.3	4.2	2.9	4.1	6.1	4.6	5.0	3.1
Underweight	26.8	15.3	25.5	23.6	12.4	22.8	27.1	24.1	23.7	21.4
Deficiencies:	-	-	-	-	-	-	-	-	-	-
Vitamin A	-	-	-	29.1	15.9	27.9	-	-	29.7	26.1
Anaemia	-	-	-	-	-	-	-	-	-	-
- Severe	-	-	-	7.3	2.2	6.5	-	-	7.0	6.7
- Moderate	-	-	-	38.9	29.2	37.1	-	-	39.5	36.6
- Mild	-	-	-	20.4	19.8	20.5	-	-	20.1	20.6

*Source: Uganda Demographic and Health Surveys (UDHS, 1995, 2000)*

## 5 Conclusion

This paper reviews the reforms that were aimed at rejuvenating the Ugandan economy following the economic and structural breakdown the 1970s, and the impact of these reforms on the agriculture sector, poverty and food security. It is evident that the reform programme has helped restore macroeconomic stability and sustained growth. Over the last fifteen years, the economy grew at an average rate of about 6.0 percent per annum, and inflation has on average been maintained in single-digit levels. Savings and investment levels too have risen.

Poverty indicators are mixed as the overall poverty levels as measured by the headcount ratio declined from 55.5 percent in 1992/93 to 35.1 percent in 1999/2000 but rose to 38.8 percent in 2002/03. Rural and urban poverty levels both followed a similar trend, declining from 59.4 percent and 28.2 percent respectively, in 1992/93 to 39.0 percent and 10.1 percent respectively in 1999/00, but rising to 42.7 percent and 14.4 percent respectively in 2002/03. On the food security front, the available indicators have also deteriorated, reflecting inadequate nutrition for a majority of the population.

Notwithstanding the above developments, it is evident that the government's concerted reform efforts have achieved some positive results. To address the remaining challenges, it is important that further effort be directed at improving the livelihoods of the poor by provision of adequate social services, increasing their ability to generate incomes, and addressing income inequality. In these respects, the Poverty Eradication Action Plan and the Plan for Modernisation of Agriculture are initiatives in the right direction.

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