

reforms since 1987 and on massive foreign support for infrastructural rehabilitation, the Ugandan economy has expanded rapidly in recent years.

Agriculture currently absorbs 80 per cent of the country's labour force, contributes 50 per cent of GDP and 90 per cent of export earnings. Cultivation of food crops - bananas (*matoke*), cassava, sweet potatoes, millet and maize - is by far the most important domestic activity, while coffee dominates exports. Agricultural processing industries (coffee, beverages, textiles, leather) are the mainstay of Uganda's small manufacturing sector, whose share in GDP is less than 10 per cent.

### 3. Objectives and strategy of the economic recovery programme

In May 1987, the Government of Uganda launched an Economic Recovery Programme (ERP), centring on the following objectives and measures:

- (i) Export competitiveness - narrowing the gap between official and free market exchange rates, liberalizing foreign exchange surrender requirements, and replacing restrictive export licensing requirements by a certification scheme;
- (ii) Agricultural policy reform - restoring incentives for producers through the abolition of price controls and inefficient marketing monopolies;
- (iii) Foreign investment promotion - introducing investment incentives and guarantees under the Investment Code, returning expropriated properties;
- (iv) Budgetary reform - increasing revenue mobilization and enhancing expenditure control;
- (v) Reduction of inflation - preventing excessive monetary expansion, through increased budgetary discipline and devolution of the Bank of Uganda's commercial banking activities in the area of crop finance.

Reflecting these policy changes, the economy rebounded strongly in 1994, with real GDP growing by 10.6 per cent.

Building on progress under the ERP, the Government announced a successor programme - the Rehabilitation and Development Plan (RDP) - in 1993. Its objectives were to increase economic growth; bring down inflation to 5 per cent; further reduce macroeconomic imbalances and improve the external account position; and eliminate existing price distortions in product and financial markets. Implementation focused on development and diversification of the export base; mobilization of domestic savings by stimulating private savings and reducing government deficits; investment promotion; reduction of foreign debt; reform of the Government budget with a view to enhancing economic and social effectiveness; and more efficient use of labour and land in rural areas for agricultural production.

### 4. Exchange rate and external accounts

Uganda's fixed exchange-rate regime of the 1980s, in an inflationary environment, led to significant overvaluation of the official rate. As a first step towards exchange rate unification, the parallel market was legalized in July 1990 and handed over to authorized foreign exchange bureaux. In January 1992, an auction system was introduced for official foreign exchange and, finally, in November 1993, an interbank foreign exchange market was established to take over both the official and parallel markets within a unified floating exchange rate system.

Since the May 1987 devaluation of some 70 per cent, which set the exchange rate of U Shilling at 60 per US dollar, the shilling's external value fell to about U Sh 1,200 per dollar by December 1993, but in 1996 the exchange rate rebounded to U Sh 1,000 per dollar. The authorities attribute this rise in particular to improvement in the tea and cotton sectors; low inflation; with positive interest rates; investors' growing confidence in the Ugandan economy; repatriation of funds for the rehabilitation of returned Asian properties; and foreign aid flows channelled through Uganda towards Rwanda. While the recent surge in world coffee prices is likely to improve Uganda's external accounts at least temporarily, the Government is concerned that the accompanying upward pressure on the shilling may hinder export diversification. A Coffee Stabilisation Tax was introduced in October 1994, in part to retard such appreciation.



## 5. Composition and direction of merchandise trade

Total merchandise exports declined by nearly 11 per cent, from US\$ 555.3 million in 1995 to \$500 million in 1996, in response to a fall in coffee earnings triggered by a drop in coffee prices and a plunge in cereals and beans exports. While little change was recorded in the exports of tobacco, exports of hides and skins, tea, cotton, fish and services rose. Principal exports in 1995 were coffee, gold, maize, fish and fish products, and were directed mainly to the European Union (Spain, France, Germany, Italy and Netherlands), which gave preferential access to Uganda's exports under the Lomé Convention. From 1992 onwards, merchandise imports grew steadily by 19 per cent to reach US\$1.25 billion in 1996 in response to strong demand for imported capital goods and the continuing benefits of trade liberalization. Most imports entered from Kenya, the European Union (United Kingdom and Germany), Japan and India. Imports comprised machinery and transport equipment, manufactures and mineral fuels.

## 6. Trade in services

Uganda has consistently been a net importer of services (non-factor services). While tourist receipts have grown in recent years, outflows expanded more rapidly due to increased payments for technical assistance as well as for travel, educational, medical and other services.

## 7. Outlook

In line with the macroeconomic targets promulgated in the Recovery and Development Plan, the authorities forecast that real GDP will grow at the same rate in 1997 as in 1996 (6 per cent). Inflation is also expected to remain at 7 per cent during 1997/98. The growth target is based on normal weather conditions, a favourable harvest and the manufacturing sector's continued economic drive. While export earnings decline to an estimated US\$ 490 million during 1997/98, the strength of the U shilling may affect the development of alternative activities.

Strong continuing economic expansion depends essentially on the country's ability to promote agricultural production, encourage diversification within and outside the farm sector, gradually integrate its large informal sector and ease the current account constraint.

## 8. Trade policy features and trends

### a) *International obligations*

Uganda is a Member of the World Trade Organization. Prior to that, Uganda became a Contracting Party to the General Agreement on Tariffs and Trade on 23 October 1962 under the provisions of Article XXVI:5(c) of the General Agreement.

Uganda's trade policies were reviewed by the WTO's Trade Policy Review Body (TPRB) from 27 to 28 July 1995. Members of the TPRB were of the opinion that trade liberalization, underpinned by better macroeconomic management had helped to restore a sound basis for investment, employment and growth. Uganda was encouraged to persevere in its efforts to rationalize the tax and tariff system, abolish remaining trade restrictions, simplify administrative procedures and improve the infrastructure. Members also recognized Uganda's request for technical assistance in identifying areas concerned and preparing changes.

Uganda is a signatory to the Lomé Convention, the Organisation of African Unity (OAU), the African Economic Community (AEC), Kagera Basin Organisation (KBO), and the Common Market for Eastern and Southern Africa (COMESA).

### b) *Uruguay Round Commitments*

Uganda has submitted its schedules of concessions on goods (schedule CXXVI) and commitments in services. In the area of goods, Uganda bound all agricultural products at a ceiling level of 80 per cent, with exceptions on 16 HS chapters bound between 40 per cent and 70 per cent. Other duties and charges were pegged at 10 per cent, 12 per cent and 30 per cent depending on the product. Industrial products covered 15 HS chapters, bound between 40 per cent and 80 per cent, and other duties and charges fixed between 0 per cent and 30 per cent. Uganda's schedule of bound services covered only one sector - tourism & travel-related services.



Legislative alignment is being considered by the Uganda Law Reform Commission, which benefits from World Bank support for the refurbishing of Uganda laws and regulations in the framework of the liberalization process.

Uganda has requested the benefit of the transitional period for the implementation of WTO valuation method, under the agreed provisions on Customs Valuation. The Uganda Revenue Authority (Customs and Excise) intends to start implementation of WTO valuation in the beginning of 1998. It needs technical assistance in this respect. On the other hand, the country no longer uses import licensing schemes, it applies the COMESA anti-dumping legislation, while its pre-shipment agreement with S G S covers quality, price and quantity aspects.

#### 9. The Ugandan export base

After a long period of civil unrest during the 1980s, that brought the Uganda economy to a virtual collapse, a national policy document was adopted. «The Way Forward» was designed to create «an independent, integrated, self sustaining economy». Economic development is considered to be the base for peace and stability. Uganda's economic development policy reserves leading roles for the private sector and exports, that are expected to become the engines of growth.

As indicated, key elements of the reform strategy implemented by the Uganda Government, include:

- Export promotion,
- Reform of agriculture, especially the deregulation of cash crop marketing,
- Foreign investment promotion.

Ugandan manufacturing firms are just restarting in business. They inherited a totally devastated infrastructure and economic environment. These industries still need some protection as infant industries, but also have to perform against a background of liberalization and increased competitiveness, especially in the subregion where the East African Cooperation (EAC) was revived two years ago. The right mix of liberalization and protection has to be reached, but the «Private sector development strategy» being designed, with UNDP assistance, has not yet defined this alchemy. Local production, particularly newly privatized industries, is believed to need a stimulus, especially through tax reductions on imported inputs and raw materials.

The Ugandan economy is still very much dependent on agriculture, which accounts for about two-thirds of GDP. Coffee and tea contribute 35 per cent to foreign exchange earnings. Other traditional and non-traditional export crops include cotton, tobacco, oilseeds and flowers, while cereals, beans, fruits, groundnuts, fish and cattle are other main agricultural products. In terms of employment, agriculture and related industrial processing activities ensure 80 per cent of the total number of jobs. Furthermore, Uganda has significant possibilities for expansion and growth. However, it lacks investment and know-how to increase productivity and the adaptation of its economic activities to market requirements.

Main export products of Uganda  
(1990 - 1994, US\$ '000)

Products	1990	1991	1992	1993	1994
Traditional export crops					
Coffee	140,384	120,794	95,372	106,741	342,669
Cotton	5,795	11,731	8,218	2,287	3,262
Tea	3,566	7,816	7,721	11,141	11,802
Tobacco	2,941	4,533	4,204	7,011	6,607



<b>Non-traditional export crops</b>					
Sesame seeds	5,234	10,517	6,478	2,511	1,476
Gold	1,386	9,648	49	904	224
Fish	4,150	4,183	6,498	8,973	10,871
Beans and other legumes	1,369	4,274	2,782	12,466	12,267
Maize	4,072	4,188	3,894	19,877	28,537
Cattle hides and skins	504	3,363	3,375	5,429	11,185
Soya beans	176	468	210	836	726
Soap		197	162	1,301	1,739
Pepper		176	1,124	357	434
Vanilla		519	281	391	674
Banana		121	4,555	208	341
Groundnuts		266		1,124	615
Cocoa beans				714	44
Pineapples				570	224
Other fruits				528	546
Roses				208	
<b>Traditional exports</b>	<b>152,686</b>	<b>141,185</b>	<b>115,515</b>	<b>127,180</b>	<b>364,339</b>
<b>Non-traditional exports</b>	<b>24,972</b>	<b>43,578</b>	<b>32,342</b>	<b>66,763</b>	<b>90,307</b>
per cent of total	16.4	30.9	28.0	52.5	24.8
<b>All products</b>	<b>177,658</b>	<b>184,763</b>	<b>147,857</b>	<b>193,943</b>	<b>454,646</b>

Non-traditional exports have shown a significant increase, especially in those from the agricultural sector. Among traditional crops, however, coffee and cotton have experienced a slow growth in quantitative terms, due to insufficient diversification and constraints on production. The same trend was noted in the industrial sector where much of the machinery has become obsolete. Some local manufacturing activities of vehicle parts, plastic and electrical products have experienced relatively rapid growth, with new up-to-date technologies made available by recent investments.

## B. THE INSTITUTIONAL FRAMEWORK

### 1. Focal point for the implementation of the MTS

The focal point for the implementation of WTO Agreements is the Directorate of Foreign Trade, Ministry of Trade and Industry. It is appropriately staffed, but is to be technically strengthened. No formal coordination facility had yet been created, at the time of the needs assessment missions, but the Ministry of Trade and Industry does intend formally to set this up. This unit would be linked with an Inter-institutional Committee, to improve the management of Uganda's membership in WTO. In the meantime, resource persons have been designated, at the Directorate of Foreign Trade, Ministry of Industry and Trade, to handle all WTO-related matters and to act as the focal point for the follow-up of the URAs.

### 2. Trade promotion and private sector institutions

The following are the principal parastatal institutions and local non-governmental organizations (NGOs) assisting private sector and foreign trade enterprises:

- The Uganda Export Promotion Board (UEPB) is in the process of being restructured. Although new statutes have been adopted, the transition period is not expected to end soon, due to the lack of resources and priority attention from the Government and the international donor community. Foreign technical assistance has favoured specific subsectors, such as the Agri-business development centre, supported by USAID, or the Uganda Silk Association, that benefits from European Union assistance.



- The Uganda National Chamber of Commerce and Industry (UNCCI) was reported in mid-1996 to be virtually inactive, pending general elections for membership of its managing bodies.
- The Private Sector Foundation (PSF), which groups the Uganda Manufacturers' Association (UMA) and twelve other major business organizations representing about 85 per cent of the formal sector in the country, is a key institution in enterprise development in Uganda. The UNDP- supported private sector development programme (PSDP) is joining hands to finalize a private sector development strategy. PSF is sponsored by the World Bank. The private sector competitiveness project comprises four components among which are a business environment component, a business Uganda development scheme (BUDS), and an equity financing and investment promotion and facilitation component. PSF intends to set up a library and a «database» with access to Internet and to engage in human resources development, focusing on trainers.
- Uganda Women Entrepreneurs Association Ltd. (UWEAL) is basically composed of business women who are active in local production and services. Some are involved in foreign trade business, but lack the competitiveness to achieve better export perspectives.

### III. PROJECT JUSTIFICATION

#### A. PROBLEMS AND CONSTRAINTS OF THE FOREIGN TRADE SECTOR

As in many other developing countries, export diversification is the most important constraint on export development in Uganda, while export growth is the key to employment creation and further economic and social development. The export base remains limited even though Uganda has great export potential and probably certain comparative advantages for selected non-traditional products, such as prime quality silk and coffee. Technical assistance projects are expected to address the issue of export diversification, by identifying these products and helping to achieve favourable results in the short to medium term.

Readily available and up-to-date marketing information is almost inaccessible to enterprises in Uganda. There is no adequate trade information system to provide updated information to exporters and decision makers in the administration. Foreign trade enterprises list access to market information among their most urgent needs, particularly on trading opportunities and on export outlets. UEPB operates a trade information facility using COMESA TINET, that benefited from ITC technical assistance in the past. With financing from the Austrian Bureau for Regional Cooperation, the Uganda Manufacturers' Association (UMA) recently obtained a connection to the Technological Information Promotion Systems (TIPS) operated from Rome. The PSF, which includes UMA among its prominent members, intends to set up a trade information facility. The Ministry of Trade and Industry has also established a small library called the Trade and Industry Information Centre, built up with UNIDO assistance and containing some ITC publications. The Centre does not seem to be very active, but could be reinforced if a Reference Centre were to be established there.

Quality management is becoming an issue for enterprises engaged in export production, as well as those engaged in importing from neighbouring and distant countries. This is emphasized by the privatization and liberalization of most sectors of the Ugandan economy. The Uganda National Bureau of Standards (UBS) still seems to lack the required technical capacities.

The fragility of the financial sector is an impediment to heavy investment for export. There are in fact no adequate facilities for export credit and financing, which widens the competitiveness gap with competing nations. World Bank assistance programmes are targeting this aspect.

The human resources are available, but do not have sufficient skills to meet the dynamic nature of the multilateral trading system. Institutional capacity is low and there is little knowledge of the URAs. This applies to public sector officials and even more so to private sector executives, at both institutional and enterprise levels, especially as businesses are run more on a «traditional basis» than managed with professional skills.

Although Uganda is known to have the lowest tariffs in the subregion, smuggling of goods from various origins seems to be a big problem. In fact the high cost of inputs reduces competitiveness of local