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THE GUIDE

TRADE AND ECONOMIC DEVELOPMENT IN UGANDA

Special Edition on

SOCIAL MARKET ECONOMY AND SUSTAINABLE DEVELOPMENT

ACTADE

AFRICAN CENTRE FOR TRADE AND DEVELOPMENT

Konrad Adenauer Stiftung

THE GUIDE

TRADE AND ECONOMIC DEVELOPMENT IN UGANDA

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SOCIAL MARKET ECONOMY
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FOREWORD

Elly Twineyo Kamugisha is the Executive Director at the African Centre for Trade and Development (ACTADE). He is a senior public policy analyst and has worked as a senior professional at Uganda Export Promotion Board/ GoU and with UNDP projects on promotion of external trade. He has worked as a part time lecturer of Makerere University Business School (MUBS) and as an Associate Consultant at Uganda Management Institute (UMI). He is the author of the book "Why Africa Fails" (2012).

Uganda like most African countries has been facing the challenge of transforming and improving the economy and boosting the citizens welfare. Whereas some unprecedented growth has been registered since 1990s, poverty and inequality still pervade the country. The country still has around 24 percent in abject poverty. More effort is required in order to achieve inclusive growth. There is need to reassess the various economic policies the country has been adopting and develop programmes aimed at promoting an enabling environment and establishing and strengthening institutions. Above all, there is need for leadership. Leadership for growth. Leadership for transparency and accountability. Leadership for sustainable development.

Let us look at Germany s Social Market Economy (SME) approach and its principles and borrow a leaf. SME s basic principles such as freedom and individualism, order, justice, responsibility, performance orientation, competition on the merits, solidarity, subsidiary and common welfare may help answer the question on the relationship between a free market economy, poverty reduction and inclusive growth.

Since 2003, the African Centre for Trade and Development (ACTADE) has been working to influence policies related to trade, the national budget, and international development, all aimed at reducing poverty and promoting sustainable development in Uganda.

Engaging the public in the debates and dialogues is justified as a means of engaging those in authority to act and promote economic policies in the country. Empowering all stakeholders is a dynamic strategy in holding all parties concerned accountable. At ACTADE we believe in working with the government, Members of Parliament and the media to dialogue on pertinent issues around economic growth, poverty reduction, wealth creation and sustainable development in Uganda and the East African region.
We will continue to have a constructive dialogue on the improvement of economic policies in Uganda by looking at different policy direction that made other countries succeed. Germany s Social Market Economy is one such approach that we are currently looking at.

The aim of ACTADE to publish this special edition of The Guide is to raise awareness on the concept and the principles of Social Market Economy and its applicability in the context of developing countries like Uganda.

We thank the Konrad-Adenauer-Stiftung (KAS) for supporting the publication of this issue.
Special thanks go to the contributors of the articles in this magazine for providing an analysis of the economic issues in the country and to the staff of ACTADE for the commitment to our goals.
We look forward to closer partnership with all those who support inclusive growth and sustainable development efforts in Uganda.

By Elly Twineyo

ECONOMIC PERFORMANCE IN UGANDA SINCE 1997

By Fred Muhumza

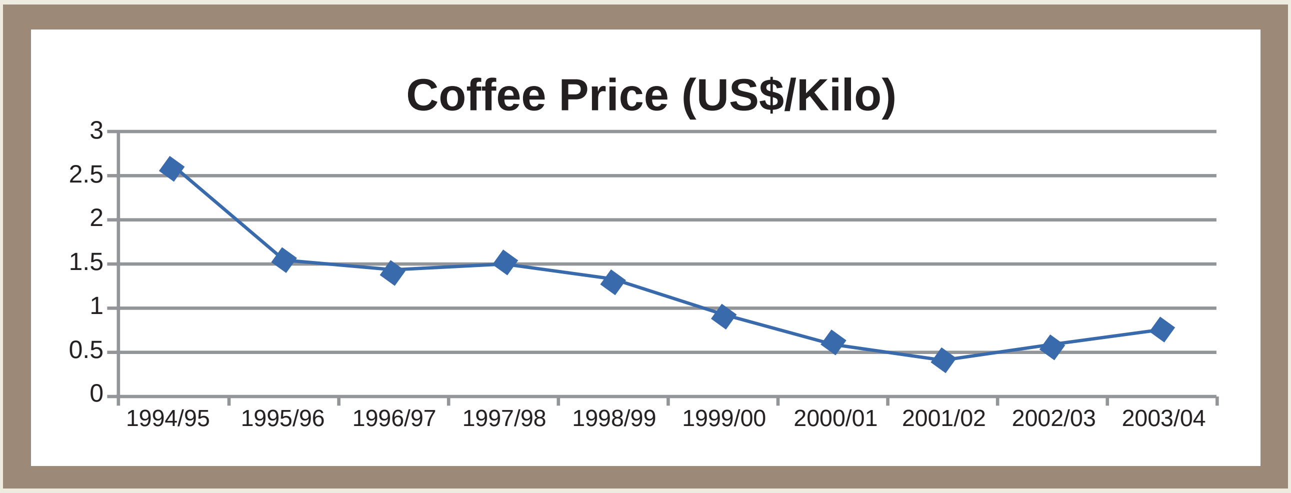
Fred Kakongoro Muhumuza holds a PhD in Development Economics from the University of Manchester and is endowed with vast experience in the areas of research and policy analysis. In the last fifteen years, he has taught economics in various Universities in Uganda, worked at the Economic Policy Research Centre at Makerere and is currently an Economic Advisor in the Ministry of Finance Planning and Economic Development. He has carried out considerable analysis of various aspects of the socio economic development policies and outcomes in Uganda leading to a number of publications and public discussions on the subject.

An assessment of the performance of the Ugandan economy since 1997 requires a brief review of the policies that were adopted or being implemented in the early 1990s, which determined the development outcomes at the time as well as laying a foundation for subsequent policy options. By 1990, Uganda had low growth rates, poor social economic indicators, a big budget deficit, and severe shortage of foreign exchange. The reforms of the 1990s, therefore, were largely intended to revitalise economic growth through reconstruction of the infrastructure and liberalisation of markets to ensure correct price signals and rewards to firms, farms, and factors of production. The liberalisation embraced both product markets and major input markets such as foreign exchange and credit-interest rates.

Good growth rates, which characterised the period under review, were a result of the resumption of peace and stability in most parts of the country and the removal of transaction costs by way of eliminating unnecessary regulations and reforming several public sector institutions. Other contributors to growth included the reduction of rent-seeking and misuse of public resources through corruption and funding of non-effective state-owned enterprises, the realignment of the exchange rate, the reversal of capital flight, and significant foreign inflows through loans, grants, and foreign direct investments.

Between 1987/88 and 2002/03 the economy grew at an average rate of 6.3% mainly on account of good policies that attracted increased foreign direct investment, the reconstruction of physical infrastructure, crop production, and community services. Community services, which included education, health, and general government, grew 6.8% during the above period, while monetary agriculture grew by 5.6%. The privatisation of poorly performing state enterprises and the introduction of the investment code to promote foreign investments boosted the growth of the private sector in the industrial, commercial agricultural, and hotel sectors. By the end of 1999, the government had completed 99 divestitures of enterprises, privatising 62 firms and liquidating the rest. The fastest growing sectors in terms of 15-year averages up to 2003 included mining and quarrying (24.6%), manufacturing (11.8%), hotels and restaurants (10.7%), and construction (10.0%). However, most of these sectors contributed very small proportions to the GDP and so could not trigger the momentum required to keep overall economic growth at high levels.

The latter half of the 1990s registered a decline in overall growth rates, especially in agriculture and services. Unfavourable weather conditions, bouts of pests and diseases, and poor physical and post-harvest handling infrastructure have often conspired to reduce agricultural production. Over time, the poor access to productive assets, especially credit and land, has constrained firms and individuals engaged or wishing to get engaged in agricultural production. Despite significant increases in farm gate process following liberalisation, the overall production incentives in the country continue to favour non-farm activities such as trade, real estate, and services in general. Over time, the international price of major cash crops, -especially coffee –which had risen to record levels in 1994/95, prompting government to impose a coffee stabilisation tax, declined significantly (see Figure 1).



The reduction in coffee prices not only reduced economic growth but also affected the gains the country had made in improving household welfare and the decline in poverty. The recovery and growth strategies of the 1990s had contributed to a reduction in poverty from 56.4% in 1992 to 34% in 2000, with the rural poverty head count declining from 60% to about 40% over the same period. Recent developments affirm continued poverty reduction but rising inequality and vulnerability. For example, the number of non-poor but insecure (vulnerable) persons has increased from 39.9% in 2003/04 to 42.9% in 2009/10, while inequality, measured by the Gini coefficient, has decreased slightly from 0.428 to 0.426 over the same period.

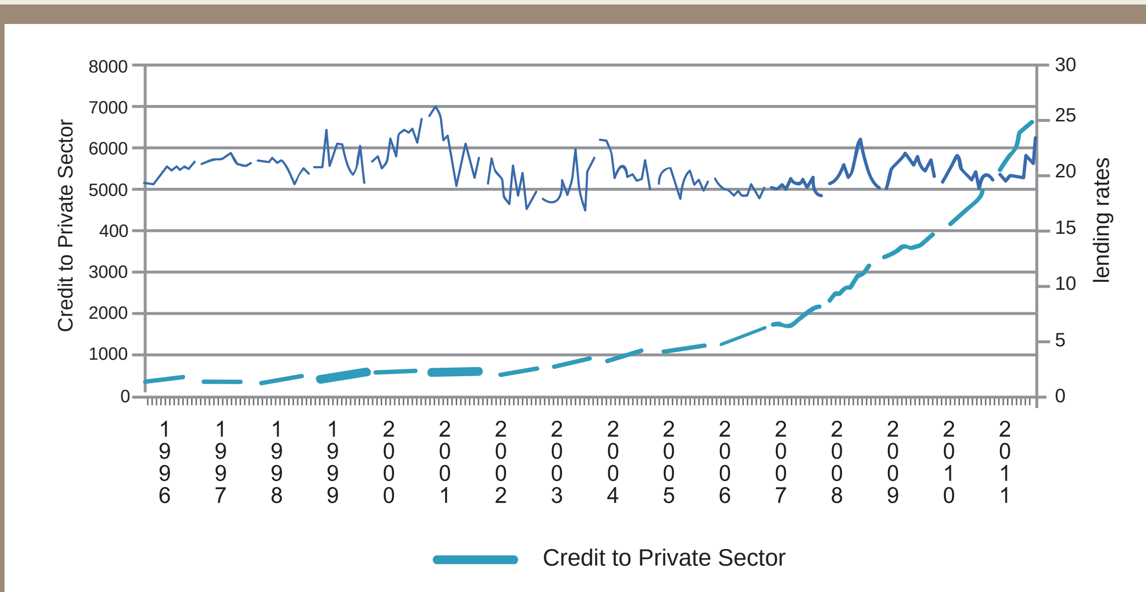
The tradeoff between growth, on the one hand, and the increased focus on poverty reduction and welfare increases, on the other, began to take a toll on economic growth after 2000 as there were challenges of raising adequate resources to finance the development process and to meet the growing demand for basic social services. The bad situation began to get worse following the growing cost of public administration and inefficiencies in the use of public resources associated with corruption and inadequate capacities across government. The challenge of sustaining commendable rates of growth required higher investment rates and continued export growth and diversification that were not forthcoming. Fish exports began to dwindle largely on account of reduced stocks in the lakes, while exports of flowers faced challenges in the form of inadequate domestic finances and fluctuations in the international prices.

The efficiency and productivity of both private and public capital needed to be increased to underpin the previous growth momentum since productivity, rather than stock of capital, is the main driver of economic growth. Previous increases in productivity –from 2.5 in the early 1990s to 3.7 during 2000 and 2002 –were largely driven by the exploitation of existing capacity following liberalisation and reconstruction, rather than changes in the stock of capital.

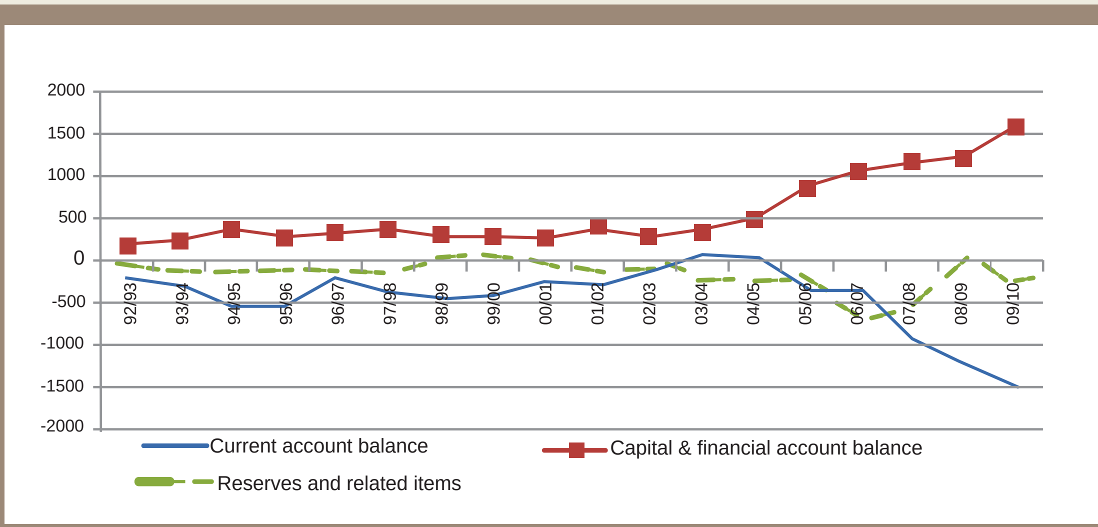
The challenges facing the agricultural sectors in the areas of correct policy formulation and implementation, natural factors, and the attraction of insufficient private capital continue to account for major setbacks in growth and welfare improvements. The fact that over 80% of the population depend directly on agriculture means that any developments in the sector ought to be strongly monitored. The liberalisation policy, which greatly improved agricultural incomes by raising the share farm-gate prices received by farmers from 20-30% to more than 80% during the 1990s, needs to be augmented by structural reforms in agriculture and increased diversification and the adoption of non-farm enterprises by households.

The labour absorption challenge requires first and foremost the resumption of growth through a proper balance of government policies and strategies for social development, the building of infrastructure, and growth. Despite the increase in access to basic primary and secondary education, labour in Uganda is still characterised by low skills and productivity. Thus, the low labour skills and the slower economic growth have combined with other factors, such as droughts, infrastructure deficit and structural bottlenecks, to slow down labour opportunities.

The best way to ensure gainful labour absorption in the economy is to increase the productivity of assets controlled by the masses, especially the poor, through the improved status of health and education, as well as access to factor (input) markets. The razor-edge problem to balance is that policies aimed at increasing the quality and value of the poor people s assets should not gravely contradict those intended to create opportunities for the utilisation and productivity of those very assets and redistribution of the proceeds. The restrictive monetary policies aimed at reducing excess money supply and controlling aggregate demand have contributed towards the persistence of high interest rates (see Figure 2). The trade-offs have often manifested in the form of reduced credit demand and investments in the productive sectors, especially manufacturing and agriculture, thereby lowering the value derived from labour and other assets (factor markets) by influencing investments and product markets.



Trade policies such as liberalisation and openness to external trade delivered the anticipated benefits for a while. The fundamental objective of trade liberalisation was to encourage export-orientation and the production of tradable commodities, which were essential for investment and development, given the small size of the Ugandan market. Apart from increasing the sources of inputs and the destination markets for outputs, trade liberalisation offers options for increased efficiency through greater competition. However, the reduction of competition in the foreign exchange market due to the need for monetary policy actions for managing fiscal operations and the persistence of structural bottlenecks to production meant that exports would continue to lag behind imports throughout the period under review (see Figure 3). Thus, the increase in external inflows to support education, health, and infrastructure construction has often led to poor alignment of the shilling (mainly appreciation pressures), which negates some of the benefits of liberalisation.



The future will have to involve a critical rethinking of the development strategy in terms of balancing fiscal injections for social and public sector management objectives as well as the growth and development objectives. Much as the immediate outputs of social spending by way of increased access to health and education are commendable, their growth impact can only be realised in the long term and only when strategies to complete the utilisation of the better quality are put in place. Resolution of structural rigidities for the attainment of sustained growth requires that programmes be implemented in an efficient and effective manner, which calls for reform in the public sector to resolve capacity constraints and corruption. The changing political and policy environments that favour increased involvement in public sector decision-making the cost of democracy and participatory planning has greatly affected the public spending patterns in a way that requires new ideas if growth that is inclusive is to be secured. Further policy and regulatory reforms will also be required to stimulate the emergence of a versatile private sector to match the demand for growth of both the real and social sectors of the economy.

Harvesting palm oil

THE CONCEPT OF SOCIAL MARKET ECONOMY – AN INSPIRATION FOR UGANDA?

By Mathias Kamp

Mathias Kamp is a German political scientist with expertise in the areas of development cooperation, democratisation, governance and civic education. He holds bachelor degrees in Public Administration and European Studies and a master degree in International Relations and Development Policy. Currently he works as Programme Officer in the office of the Konrad-Adenauer-Stiftung for Uganda and South Sudan, based in Kampala.

In October 2012 Uganda celebrated 50 years of independence. The golden jubilee provided an opportunity to look back at the past and acknowledge the achievements that have been made, but also to focus on the remaining challenges and the way forward.

In the economic sphere, Uganda just like many other African countries has been struggling since independence with the challenge of transforming its economy and improving the welfare of its society. Despite periods of unprecedented economic growth, poverty and inequality still persist in the country and economic challenges remain daunting. In light of these challenges, but also looking at the current economic opportunities such as the expected oil revenues, a reassessment of Uganda s economic policies is timely and necessary.

Uganda, as many observers notice, seems to be at a crossroads with regard to economic policy. Until the late 1980s the Ugandan economy was more or less devastated as a consequence of the turbulent political history. But the takeover of power of the National Resistance Movement (NRM) marked a turning point for the economic development of the country. The originally adopted 10-Point-Program was inspired by Museveni s early ideas and therefore contained rather socialist elements. However, facing tangible economic challenges and strong support by international donors it quickly gave way to a pragmatic market-oriented economic policy. The economic reform process throughout the 1990s carried fruits and resulted in a remarkable economic growth. Uganda became a darling of the international donors. With a course of macroeconomic stability and fiscal discipline and with President Museveni as a moderniser, Uganda was known for being one of the relatively successful and reform-oriented countries of Africa. However, while many of the reform measures such as privatisation, market liberalisation, improvement of the investment climate, debt reduction, and diversification of the economy produced significant results, the Ugandan economic policy up until today still remained characterised by a certain degree of inconsistency and many shortcomings on the implementation side. Obviously a comprehensive guiding concept has been missing until now.

The current social and economic challenges Uganda is facing remain tremendous. Successes in fighting poverty lag behind economic growth, social inequalities have rather increased. A large part of the population did not yet profit from the economic revival, especially the rural population depending on agriculture.

Social inequality as well as shortcomings in providing public services and the high unemployment rate nourish fears of social tensions. The 2011 events around the walk to work campaign, partly triggered by increasing fuel and food prices (though ultimately politicised for other purposes), have shown that a certain potential for conflict exists within the society. Moreover, the government is increasingly subject to criticism and faces accusations of corruption, lack of budget discipline, and extravagant government expenditures.

The 2011 and 2012 government budgets brought a number of concessions and improvements. Fiscal discipline has somewhat increased again and funds have been allocated to meaningful programmes in some areas while unnecessary administrative expenses were cut elsewhere. The emphasis on priority sectors such as education, roads, energy, agriculture, water and health is laudable. However, given the huge problems of income inequality, unemployment and poor public service delivery many of the measures in the budget are still rather c osmetic i n nature - without effectively tackling the fundamental challenges of reducing poverty and improving the welfare of the people.

In order to address these fundamental challenges it may be necessary to reflect about the underlying values and principles of economic policies for Uganda an d to search for a guiding concept. The idea of a Social Market Economy can be a valuable source of inspiration in this endeavour.

Germany s Social Market Economy A Success Story

Since the beginning of its implementation in the emerging Federal Republic of Germany in 1949, led by economic experts in the first government under Chancellor Konrad Adenauer, the Social Market Economy as Germany s middle path of regulatory policy between centralist socialism and unbridled capitalism has been a story of success. Today we are looking back at more than 60 years of economic and social stability. Social Market Economy proved to be a valuable instrument of economic governance in Germany. But even beyond the German borders, the concept has turned out to be meaningful and inspiring.

Particularly in the context of globalisation and in the light of the recent worldwide economic and financial crisis, the deliberately holistic and yet not static but rather flexible economic, political, and societal model, has received general praise. International demand for the application of its principles has increased accordingly.

Social Market Economy is a model that puts the human being at the centre of its attention. It sets out from the needs and capacities of individuals, while at the same time emphasising the importance of solidarity within a society. This is a clear distinction from socialist approaches which focus on the collective and claim the right to direct and intervene rather than adhere to economic governance. In this way, Social Market Economy is more than just an economic success story - it has become a cornerstone of the German society. Its success in Germany, particularly during the recent worldwide economic crisis, has distinguished it as a model for economic and social stability and peace. Thus, it is not only a suitable overall system of order for national development but also one of the most precious ex port articles o f Germany.

While the concept as applied in Germany should not be a b lueprint f or an economic order in a country like Uganda, its key values and principles can nevertheless inspire meaningful policies. Some of its features provide best practices which can be applied and thereby can help to improve social and economic policies even in the context of African developing countries such as Uganda.

The Values and Principles of Social Market Economy

Freedom and responsibility are at the core of the concept of Social Market Economy an d they are understood to go hand in hand. The concept shapes an economic and social order that combines and balances economic liberties, social justice, and democratic rule of law. Based on the guiding concepts of solidarity and subsidiarity it links the principle of a free market with the principles of social balance and individual responsibility.

Individualism

The individual human beings and their right to a life in dignity are at the core of the Social Market Economy. Each individual should get the chance to develop and exploit his or her potential - and has the obligation to make good use of it. In contrast to collectivistic approaches, the human individual is ultimately at the centre of the economic and social order, with economic production not being a good in itself but a means to improve the living conditions for each member of the society.

Freedom

Individuals are free to make their own choices and to pursue their own goals with all the capacities they have. This brings about a high degree of diversity and adaptability of the economy. The free individuals in the economy will try to optimise their gains, which in turn generates more wealth for the society as a whole.

Order

A society needs a clear order for economic processes which defines the "rules of the game". Without these rules the economy and society would end up in anarchy and injustice. Therefore the state has to intervene by providing an order defined by the laws and through meaningful economic governance.

Justice

Justice refers to the creation of a society in which all individuals have equal opportunities and in which fair conditions prevail – for example with regard to employment, remuneration, market access, and allocation of goods and services. Creating social justice aims at balancing out extremes and ensuring a peaceful co-existence of all citizens. This includes reducing differences to a healthy degree - but of course without completely equalising the results of different performances.

Responsibility

As already stated above, freedom goes hand in hand with responsibility. Each individual is responsible for his or her actions and can be held accountable for them. Although individuals are free to act autonomously, their actions should correspond with the needs of the society they live in. Social responsibility is the basis for solidarity which in turn ensures support for the disadvantaged in society, and inter-generational sustainability.

Performance

Personal work is the basis for economic success, both at the individual and the societal level. Given the freedom of every individual to develop his or her personal performance and to attain maximum results in the market, individual performance is a decisive factor for personal income. In a Social Market Economy, however, this principle is supplemented by other principles such as solidarity and subsidiarity, which ensure that those who cannot reach a sufficient income on their own (e.g. due to disability, illness, unemployment etc.) are supported.

Solidarity

Solidarity means that much as individual performance is at the core of economic activities, the individual as part of the society still has to consider the common interest – motivated by the knowledge that common challenges can only be managed through common efforts. This principle of solidarity ensures harmony, cohesion, and social peace in a society. It relies on a system of mutuality, in which people contribute what they can based on the assurance that they themselves can also benefit from the solidarity of others.

Subsidiarity

Individual human beings are expected to take their fate into their own hands and primarily rely on self-help rather than support from others. According to the principle of subsidiarity, any matter should be handled at the lowest level capable of addressing that matter effectively – from the individual level to the family level, the community, and so on. That means that no social body should take up functions that an individual or a subordinate body can effectively fulfil based on its own capacities and resources.

Common Welfare

Common welfare refers to the well-being of society as a whole. Each individual has the responsibility to contribute to the creation of societal wealth and at the same time the right to benefit from this wealth. In a Social Market Economy, state institutions play a role in ensuring and administering public welfare. For example, taxes and other levies are imposed in order to provide public goods that benefit society as a whole, such as infrastructure and social services.

Implications for Economic Policies

While the values and principles of Social Market Economy cannot be translated into a catalogue of standard policies – as stated above they do not provide a blueprint – they nevertheless point at a number of obvious societal and economic preconditions.

These preconditions include a competitive order as a basis for economic progress and innovation and a market system in which the freedom to access the market and to transact business is guaranteed. Furthermore, the right to ownership of private property needs to be respected as well as the ability of market participants to conclude contracts without unnecessary external restrictions (freedom of contract).

Despite the emphasis on freedom and competition, the Social Market Economy does not rely on a pure laissez faire approach. It is the role of the state to provide order and a stable regulatory framework. In order to fulfil this role effectively, the state and its institutions and political forces must maintain

A series of roundtable discussions by KAS and ACTADE brings together Ugandan stakeholders to discuss the principles of Social Market Economy

a constant and consistent economic policy. This includes policies aimed at keeping the price level stable and ensuring monetary stability. In extreme cases the state must also be ready and capable to actively intervene (state intervention in case of market failure), since a failure of the market can cause severe economic disruptions and bring about social challenges, as we have witnessed in the recent past at both national and international level

Ultimately, in order for a market economy to deserve the title social, the element of competition needs to be harmonised with the aim of maintaining a certain social balance. This task cannot be managed without a certain degree of re-distribution, financed through public revenue. It is the responsibility of the state to enforce solidarity of the strong and rich with the weak and poor. Among the key instruments used in that regard are a progressive income tax and a system of social security in which compensation is guaranteed in case of illness, unemployment or old age.

Sceptics may perceive these measures as steps towards a welfare state which is not only costly to maintain but also suffocates personal initiative and responsibility. This, however, is a misunderstanding that overlooks the fine difference between a social state and a welfare state. In a full welfare state the individual citizen ultimately loses the personal responsibility of planning, investing, and securing his or her existence. In that case the balance between the two key principles of subsidiarity and solidarity is lost subsidiarity is basically disrespected and solidarity is exaggerated towards an almost collectivistic approach. This is not the case in a Social Market Economy in which the free and responsible individual remains at the centre of economic activity and where the state plays only a complementary, regulatory, and balancing role.

Looking at these preconditions it becomes obvious that a Social Market Economy requires a competent state in which the rule of law is guaranteed. For investment and innovation to flourish and for the market to function in a proper regulatory framework, there needs to be reliability and trust regarding the laws and their enforcement. Citizens need to be protected from arbitrariness and equally enjoy legal security. However, respect for a minimalistic interpretation of the rule of law may not be enough. Social Market Economy should go hand in hand with the principles of good governance, which apart from the rule of law include effective democratic participation, transparency, accountability, responsiveness, equity, and inclusiveness, as well as effectiveness and efficiency of public institutions. It would be naive to expect a Social Market Economy to function effectively in a political context where such principles are not respected.

A Concept for Developing Countries?

For decades the search for the best strategy to achieve better living conditions in developing countries and to enable people to live in dignity and prosperity across the globe has led to a wide range of different, sometimes competing or contradictory approaches. The question which economic and social order is most suitable for developing countries has for a long time been one of the key issues in development policy. And a real consensus has never been achieved - although from time to time specific approaches and "prescriptions" dominated the debate (and also the practice) for a certain time. We can identify these approaches by roughly distinguishing four phases of development policy over the last 60 years – and probably a new phase that is just beginning.

Development through growth: Initially, in the early years of the development discourse (after the end of World War II), the applicability and usefulness of a free market economy system for regulating competition and managing the economy in less developed countries was rejected or at least seen with a lot of scepticism. What prevailed was a tendency towards anti-liberal ideas of centralist economic planning and permanent state intervention with the aim of fostering economic growth as the key to development.

Basic needs approach and *war against poverty*: Later, in the 1970s, the basic needs approach gained popularity. The state continued to be seen as the central actor steering the economy, now with a main focus on reducing poverty and providing for the citizens in order to satisfy their basic needs. With the state supposed to play the role of the provider, self-initiative and self-help approaches were widely neglected. With time, the negative consequences of these interventionist and protectionist approaches became obvious – one of them being the accumulation of immense debts.

The lost decade of the 1980s and the *neo-liberal shock therapy*: The debt crisis which severely hit particularly the poorest countries led to a huge crisis for development policy. What followed was a focus on debt reduction and the restructuring of economies. This was accompanied by a neo-liberal paradigm change, often summarised as the Washington Consensus. Letting the forces of the market play out their magic was the new credo – with deregulation, liberalisation, and privatisation becoming the new popular concepts.

Sustainability and *Good Governance*: The end of the Cold War brought a general paradigm shift in international relations which naturally also affected development policy – opening up space for less polarised debates and more holistic approaches. The concept of sustainability gained popularity and the need to accompany economic policies and structural adjustment with meaningful social and environmental policies was perceived more strongly. Development policy started being understood as a much more comprehensive package – not only focusing on economics but also on issues such as human rights, efficient institutions, rule of law, and participation of the people – popularly summarised under the concept of good governance.

Social Market Economy: Over the last years the concept of Social Market Economy has gained increased attention in the development context. While for a long time the concept had been seen as applicable only for highly developed, industrialised countries in the West, more and more voices are now referring to the concept as a source of inspiration for developing countries. This is based on the conviction that even in developing countries economic as well as societal goals can be successfully realised under conditions of liberal and at the same time social, reliable and stable rules in both the economic and political sphere.

A number of factors show that an orientation along the concept of Social Market Economy can indeed be a meaningful path for developing countries:

- The openness and flexibility of the concept that allow for an adjustment to general trends and challenges in the global economy as well as to specific requirements resulting from the given national context.

- The close link of the concept to the issue of enhancing government competencies and strengthening stable and democratic political institutions – which is probably one of the core challenges in many developing countries on the African continent.

- The impulses for growth resulting from the effects of economic and social mobilisation in a free market with healthy competition.

- The pro-democratic push that comes with the promotion of Social Market Economy principles, i.e. with regard to enhanced personal freedom, self-determination, and protection against the state in a context of rule of law.

- The peace-building character of a Social Market Economy — as a result of achieving a better social balance and promoting a societal consensus on the core values of freedom and social justice.

Perspectives for Uganda

As shown above, the concept of Social Market Economy has a lot of potential for inspiring meaningful economic policies in Uganda. However, in order to effectively apply the respective values and principles in the Ugandan context, a number of questions must be answered and a range of challenges addressed. These include among others:

- Subsidiarity in the African/Ugandan context: In the discussion of values for the economic and social order the cultural dimension must not be overlooked. With regard to the principle of subsidiarity for example, there might be challenges resulting from a traditional cultural background in which collectivist ideas and values of loyalty and obedience may enjoy more emphasis than values of individual responsibility. How can we assess that challenge — especially in light of the fast and dynamic changes affecting the modern Ugandan society? How can modern individualistic values be harmonised with traditional values in a balanced and meaningful way?

- Solidarity: Like with subsidiarity, there might also be challenges for the principle of solidarity as it is understood in the context of a Social Market Economy. How is solidarity characterised in Uganda? Is it possible to transform the existing traditional forms of solidarity, which are still largely applied within family networks and ethnic communities, into a modern approach of solidarity across all spheres of society?

- Polarisation of the political spectrum vs. lack of alternative positions: The current political climate is not very favourable to the adoption of a new guiding concept for the economic and social order since such a step would require a wide consensus. The political spectrum is extremely polarised along political issues (basically one issue: power), while at the same time there seems to be a lack of programmatic differences and alternative ideas with regard to economic policy. How can a constructive, issue-based dialogue on economic policy be facilitated in such an environment?

- Rule of law and quality of democratic institutions: Uganda has come a long way with regard to democratisation and past achievements in this area must be acknowledged. However, we can still observe a number of challenges with regard to the strength of democratic institutions and the respect for democratic procedures and the rule of law. As stated above, a Social Market Economy requires a stable political environment in which the principles of good governance are guaranteed. How can the two inter-dependent challenges of deepening democracy and strengthening the economic and social order be addressed simultaneously in a meaningful manner?

- Sustainability and protection of the environment: Uganda is confronted with a number of challenges resulting from the global phenomenon of climate change as well as local factors such as pollution and destruction of the environment. It is obvious that economic policies need to factor in the threats posed by these challenges and find a way of harmonising economic and ecological interests. Is it possible to design a green market economy for Uganda?

- Challenge of the informal sector: How can the informal sector, which employs a large part of the population, be captured by strong economic policies in the spirit of social market economy? With regard to social policies: Can the state provide a minimum of social security for not formally employed people or do they have to remain dependent on traditional networks (e.g. family support)?

- Role of development aid: In how far does the still persisting dependence on development aid pose an obstacle for the development and implementation of a reasonable, independent, and home grown economic and social policy? What does aid dependency mean in light of the principle of subsidiarity?

- Challenge of demography: Uganda is one of the countries with the youngest population worldwide and has one of the highest birth rates. How can economic policies be designed to take up this demographic challenge? How can the escalating employment crisis and the growing youth unemployment be addressed effectively?

- Oil revenues: The discovery of significant oil reserves in Uganda and the ongoing explorations are currently a dominant topic of discussion among experts and policy makers as well as the general public in Uganda. With oil production expected to start latest in 2015, the oil factor will most likely be the single dominant factor influencing economic development as well as economic policy formulation for the years to come. The oil discovery and the expected revenues from oil production are seen as an opportunity and a challenge at the same time. The euphoria about the expected economic benefits is mixed with worries about negative side effects of oil production that can be observed elsewhere and the fear of the so-called oil curse. In order to maximise the benefits and to avoid negative effects, the oil production - and particularly the expected revenue - needs to be managed in a meaningful manner. In what way can the principles of Social Market Economy guide the design and adoption of good policies, so that oil production can positively contribute to sustainable economic growth and development and all spheres of society can enjoy the benefits?

These many challenges and open questions all point at one thing: the need to continuously engage in an open dialogue on the principles, values, and practical dimensions of economic governance in Uganda in order to jointly search for solutions and answers. Such a dialogue should bring together all relevant stakeholders from all sides of the political spectrum and all spheres of society. And then why not look for inspiration from concepts that have been successfully applied elsewhere and might offer important lessons?

It is not always about reinventing the wheel – sometimes it might be better to simply adjust a type of wheel that is already there in light of the specific conditions of the road ahead.

KAS Conference on Oil Production in a Social Market Economy

INCLUSIVE GROWTH FOR SUSTAINABLE DEVELOPMENT

By Annette Were Munabi

Annette Were Munabi holds an M.A. in Economics from Makerere University in collaboration with the African Economic Research Consortium (AERC) and a B.Sc. in Economics and Statistics from Makerere University. Currently she works as a Policy Analyst for Economic Policy and Livelihoods at Development Research and Training (DRT).

While the classical economists believe that the i nvisible hand as captured by Say s Law - i.e. supply creates its own demand and with minimal government through the establishment of private property rights and the rule of law - the economy is able to move on the steady path of growth towards equilibrium. On the other hand, other schools of thought have posited that market forces without adequate government regulation of autonomous institutions and the private sector may not be in position to effectively and equitably allocate resources for inclusive growth. Inclusive growth entails both the aspects of pace and pattern and the approach should inherently have aspects of sustainability by allowing people to not only benefit but also contribute to the process. The adoption of the appropriate mix of macro-economic, sectoral, redistributive and restructuring policies accompanied by reforms in governance, well designed and managed social safety nets with the aim of creating economic opportunities and ensuring equality in accessing them is likely to make poverty reduction efforts more effective through increased participation of the vulnerable groups i.e. the chronically poor and other marginalised groups of society like the elderly, persons with disability (PWDs), widows etc. Inclusive growth as a strategy for economic development has received growing attention globally owing to the rising inequalities amidst economic growth both

Market forces without adequate government regulation of autonomous institutions and the private sector may not be in position to effectively and equitably allocate resources for inclusive growth.

internationally and within individual countries. Growth that limits the participation of all citizens has seen poverty increase in many countries accompanied by rising inequality, lawlessness, corruption, and social and political unrest.

Globally, the Millennium Development Goals (MDGs) have been the guiding framework for sustainable development, with over 160 heads of state and government having committed themselves to the achievement of specified targets by 2015. But still the global economic outlook has remained gloomy with weak economic recovery in developed countries. Uganda being a land locked open economy has experienced both domestic and external shocks and against the back drop of the global crisis in 2009/10, Uganda s economy declined to 5.9% and in 2010/11 grew with a real GDP of 6.7%. On the other hand, per capita GDP averaged at about 3.8% (Figure 1) with the services sector as the main driver of growth, contributing over 50% to the total GDP and growing at 8.4% compared to the industrial and agriculture sectors which grew

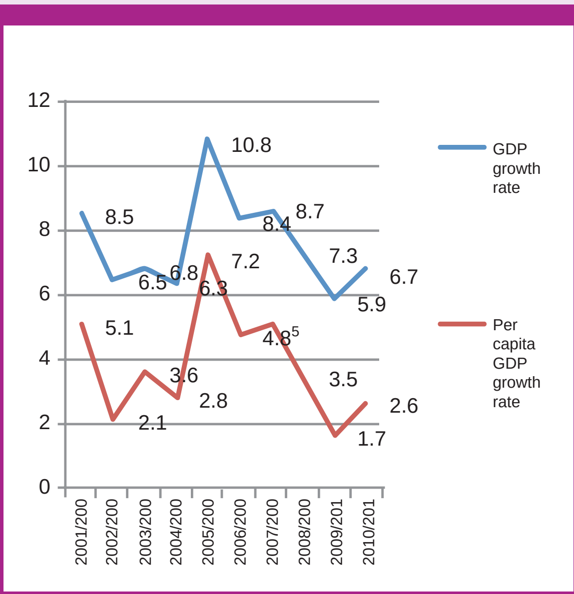


Figure 1: Economic growth rate in Uganda FY 2001/02 - 2010/11

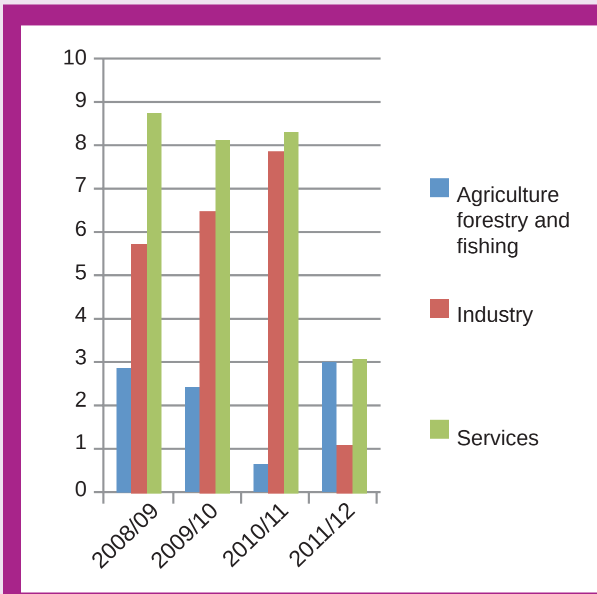


Figure 2: Percentage real GDP growth by sector in Uganda: 2008/09 - 2011/12

Source: Author s computation based on UBOS and MFPED statistics

by 7.9% and 0.7% respectively - as portrayed in Figure 2[1]. In the financial year 2011/12, the economy grew by 3.2% and the slow-down was attributed to drought, weaker demand for the local exports due to the general global outlook in developed countries that had previously provided markets, high international fuel prices and a population growth rate of 3.5% compared to 3.3% in 2010, among other factors[2].

Uganda s economy grew at an average of 7.9% per annum in the period 2001/02 2009/ 10 and in the same period the incidence of poverty declined from 38.8% in 2002/03 to 31.1% in 2005/06 and 24.5% in 2009/10.[3] The Gini-coefficient, on the other hand, rose from 0.408 to 0.426, implying a widening gap in the income levels of the population. In the mid-1990s, emphasis on growth led to a public demand for pro-poor policies to address the effects of deep rooted disillusionment with many developing countries primary target of raising the levels of investment by allocating resources to achieve rapid growth with the expectation that this would lead to a trickle-down effect through higher employment and real wages and eventually alleviate poverty. However, the lack of explicit poverty-reducing policies in many situations led to a process of growth accompanied by rising inequality due to either a weak or non-existent trickle-down effect. The first Poverty Eradication Action Plan (PEAP) was developed in 1997 under the Poverty Reduction Strategy Papers (PRSPs), which was succeeded in 2005 by PEAP II and subsequently replaced by the National Development Plan in 2010 as frameworks to secure concessional loans from international financial institutions such as the World Bank and the International Monetary Fund to target poverty-reducing interventions with the objective of reaching marginalised groups. The embedded macroeconomic framework focused on stabilisation and sought to achieve human development that is secure, sustainable, equitable and empowering for the majority of the citizens. In Uganda, like in many developing countries supporting people to participate in the growth process, many reforms are required that ensure the allocation of resources to i) sectors in which the poor are employed; ii) sectors that produce outputs that the poor consume; iii) areas in which the poor live; and iv) factors of production that the poor possess.

[1] Bank of Uganda (December 2011). State of the Economy Report .

[2] Ministry of Finance, Planning and Economic Development. Budget speech, FY 2012/13 delivered at the meeting of the second session of the 9th Parliament of Uganda

[3] Uganda Bureau of Statistics, National Household Survey (2010)

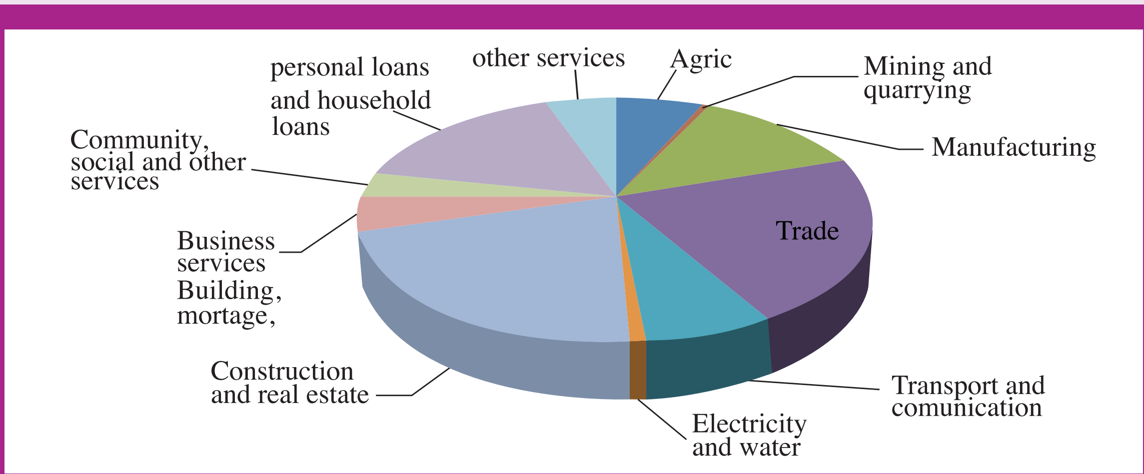
The budget for FY 2012/13 considers inclusive growth as vital for sustainable development. However, the realisation of such a target can be realised through the delivery of high levels of employment, productivity and social cohesion coupled with stronger economic governance for rapid and lasting results. Growth in Uganda plummeted to 3.2%, private investment declined as stabilisation policies have implied high real interest rates, a rise in the real cost of imported capital goods (due to high real exchange rate depreciation), the presence of significant excess capacity due to low levels of aggregate demand and the absence of complementary public investment in infrastructure. Fiscal stabilisation has been elusive and the budget deficit still stands at 7.3% in 2009/10[4] (exclusive of grants) of the GDP primarily due to the inelastic nature of the tax system characterised by a narrow tax base and an increasingly large informal sector. The macroeconomic framework for inclusive growth needs to consist primarily of employment generation combined with relative price stability of goods and services such as food and others in the consumption basket of the poor. The two key macroeconomic variables have a trade-off effect considering the classical Phillip s curve but generally there is a case for tolerance of larger deficits so as to stimulate investment and growth. However, growth stimulated by fiscal expansion can only assist in financing government deficits as long as they are not excessive and spending is directed towards the provision of a more durable basis for stimulating private investment, human development and poverty reduction.

At the sectoral level, the agriculture sector, in addition to being the source of food, employs 73.3% of the 85% of the total population who live in the rural areas.[5] The sector provides direct employment to the largely un/semi-skilled labour force and indirectly at various stages of the value addition chain. Although agriculture provides the widest opportunity for participation of the citizens, the resources allocated to the sector are still too meagre for its sustainable development and the constraints that hinder the private sector investment in service provision to the vulnerable marginalised groups have not been aggressively addressed. Furthermore credit made available to small borrowers can contribute to substantially larger incomes and employment multipliers, private sector credit to the agriculture sector is low mainly because it involves high risks, being dependent on climatic conditions that have been highly unpredictable, and the marginalised groups do not have assets to secure credit for investment. The government through its constitutional obligation could adopt appropriate steps to encourage people to grow and store adequate food and, through its agriculture policy provide incentives for farmers to access land, credit, markets and other agricultural inputs and facilities. Figure 3 below shows private sector credit from commercial banks.

4 Ministry of Finance, Planning and Economic Development. Annual Budget Performance Report, FY 2010/11

5 Lukwago, D., (2010). Increasing Agricultural Sector Financing. ACODE Policy Research Series No. 40,2010

Figure 3: Sectoral shares of credit to the private sector from commercial banks June 2011 to May 2012



Source: Author s computation based on Bank of Uganda statistics

While large farms can use capital and non-factor inputs more intensively, small farms are likely to be characterised by higher land-use and labour intensities. However, it is imperative for government to focus on the protection of the community from interests of the private sector as they aggressively engage in service provision. Generally land reforms coupled with expanded credit, better marketing arrangements, appropriate technical progress e.g. high yielding varieties of seeds and animal species for food security and increase investment in rural infrastructure for irrigation networks, farm-to-market roads alongside the spread of basic social services such as health and education can fundamentally alter the position of the rural poor. Although farm mechanisation would facilitate expanded demand for credit to the sector, care needs to be taken to avoid unequal distribution of output gains thus leading to the eviction of small farmers and causing landlessness. In order to address the specific constraints of each region, district and community to agricultural production and productivity, Uganda could learn from good case studies like Rwanda and adopt the principles in the Comprehensive Africa Development Plan (CAADP) for the strategic transformation of agriculture.

The construction sector in Uganda has emerged in recent years and - being a labour-intensive sector - has supported the absorption of unskilled labour from among the poor. However, the jobs created are seasonal and largely casual with no contractual arrangements for the protection of labourers from exploitation. Focus on the provision of rural infrastructure in backward areas and shelter for low-income earners through government projects is likely to impact on the lives of the vulnerable groups by employing the poor on public and private works. Growth should be concentrated in sectors which are major sources of livelihood and/or produce commodities that are consumed by the poor by way of a harmonised approach to social protection and livelihood promotion through agriculture to ensure greater convergence of purpose across relief and development.

In the late 1980s and early 1990s, Uganda adopted several restructuring policies of privatisation, financial sector liberalisation, trade liberalisation, and capital account convertibility which aimed at reducing the state s role as the lead agent for development and integrating the country into the global economy. Although privatisation - in the case of Uganda through the sale of public enterprises to private local and foreign investors – was intended to contribute to greater efficiency in service delivery; the employment generated by the firms compared to the costs of the process have not been deliberately evaluated. Although the process targeted loss making enterprises, strategic corporations that should have been kept under the control of government were privatised as well e.g. the Uganda Electricity Board, Uganda Post and Telecommunication Corporation, Uganda Commercial Bank (UCB) etc. This has led to the formation of quasi-monopolies hence restricting access by the poor through the removal of cross-subsidies and the phasing out of loss-making services. In addition, privatisation involved substantial down-sizing of labour exacerbating unemployment and poverty, considering that private investment opportunities could hardly absorb the displaced labour. Government efforts to enhance private-sector participation in the provision of basic social services like health and education have created a dualistic structure of provision, with the rich gaining access to higher quality services while the standards of publically provided services to the poor has declined largely due to the shift of highly skilled personnel to more remunerative private facilities. Similarly, liberalisation of the financial sector, with the move to market based interest rates prior to fiscal reforms, has exacerbated the problem of large fiscal deficits owing to the resulting explosive growth in debt servicing liabilities, leading to crowd-out of development expenditures and investment in human development subsequently restricting participation of the minority groups.

As a strategy for developing countries to benefit from globalisation and achieve fast export-led growth trade liberalisation has led to reduced import tariffs, market based exchange rates regime to promote exports and the opening up of more sectors for FDI combined with attractive fiscal incentives. However, in recent years, optimism has faded in the face of the global economic down turn, barriers to labour-intensive exports and enormous subsidies to domestic producers, while low tariffs have led to competition in the market of locally manufactured goods and cheap imports. Failure to face up to competition has led to the closure of a number of industries e.g. Nyanza Textile Industries

Limited (NYTIL). The contribution of trade to sustainable growth requires a domestic investment strategy to initiate an indigenous growth process before opening up to the global economy with caution being taken in sequencing. At the same time, human and institutional development is crucial in addressing constraints (marketing, quality control, research and development) that might hinder the local industries facing competition pressure. Proper sequencing and pacing of reforms are of paramount importance alongside stronger regulations of the domestic capital market and banking sector.

Inequality in Uganda has also been a result of a combination of factors that include i) skill-based technological change; ii) weak labour unions; iii) trade liberalisation; and iv) skewed- FDI distribution. Foreign direct investment (FDI) has also led to massive repatriation of profits abroad while incentives to attract FDI lead to losses in tax revenues by the country besides rampart abuse of the Ugandan tax incentive systems. Reducing such inequality would entail altering the allocation of public resources through changing the pattern of expenditure and taxes, perverse subsidies, or tax expenditures which benefit the rich i.e. subsidies on electricity, piped water, higher education etc which are largely consumed by the rich. Decreasing inequality in Uganda requires making low skilled jobs more readily available hence pushing up wages among the poor. Although, efforts at achieving peace and stability in the region could yield substantial dividends in terms of creating fiscal space for larger spending on health and education, defence outlays should not substantially exceed expenditures on social services.

A growth strategy that ensures rapid growth, coupled with efforts to improve assets or incomes without affecting the investment climate and distorting resource allocation is desirable. Policies that are inclusive are unlikely to be adopted unless the politics and the process of governance are more pro-poor e.g. supporting greater participation of citizens in the formulation and implementation of public policy, guaranteeing the rule of law, transparency, accountability, strengthening information systems that are closely linked to the realties on the ground and putting in place a responsive bureaucracy. Decision-making, participation and empowerment of the poor could be decentralised by giving special representation to the marginalised groups and by doing away with patronage of powerful special interests and high levels of corruption through supporting independent accountability institutions to detect and punish corruption and embezzlement cases. The development of an appropriate legal, fiscal and political economy framework is essential for creating a suitable environment for strong NGOs and CSOs together with a free and empowered media to contribute to greater transparency and accountability in the system through broad pro-poor coalitions to block attempts by powerful vested interests. Home grown solutions could be developed to suit local situations by designing and delivering of programmes that deliberately target the marginalised and inactive groups and respond to the unique needs of each region, district and community for self-sufficiency and sustainability.

Cement factory in Hima

THE IMPACT OF NATIONAL BUDGETING ON TRADE AND WEALTH-CREATION

By Charles Mulozi Olweny

Charles M. Olweny holds a degree in Human Resource Management and a Masters degree in Human Rights from Makerere University. He holds numerous certificates in human rights and humanitarian law. He worked with Foundation for Human Rights Initiative (FHRI) as Research Monitor and documentation officer for two years and is now working with Volunteer Efforts for Development Concerns (VEDCO) as advocacy officer.

The impacts of a government s budget on trade and wealth-creation are of considerable concern to traders as well as to consumers and taxpayers. The original contributions in this article analyse all of the budget s component expenditures mainly on agriculture, which employs over 75% of the 35 million Ugandans in trade and wealth-creation, with special emphasis on issues that have assumed increasing importance over the last decade or so, such as intergenerational transfers of debt and declines in tax revenues.

In June of every year, every citizen of Uganda, from the common man to the politician, is eager to know about the national budget as they would like to get an idea of the financial performance of the government over the past one year, and to know about the financial programmes and policies of the government for the next one year and also about how their standard of living will be affected by the financial policies of the government over the same period.

The term budget is derived from the French word "*budgette* w hich means a leather bag or a wallet . It is a statement of the financial plan of the government. It shows the income and expenditure of the government during a financial year, which runs generally from 1 July of one year to 30 June of the next, and is literally termed 'financial year' in the case of Uganda. A national budget is a legal document that is often passed by the legislature, and approved by the chief executive - or president. It goes through four major stages, namely: formulation, approval, implementation, and monitoring and evaluation.

There are various current legal and institutional frameworks enshrined in various legislations that directly and indirectly affect budgeting which will have a direct or indirect impact on trade and wealth-creation in the country. Such legislations include among others; the Constitution, 1995; the Local Government Act, 1997; the Local Government Finance and Accountability Regulations, 1998; the Local Government Finance Commission Act, 2003; the Public Finance and Accountability Act, 2003; the National Planning Act, 2002; the Budget Act, 2001; and the Public Procurement and Disposal of Public Assets Act, 2003.

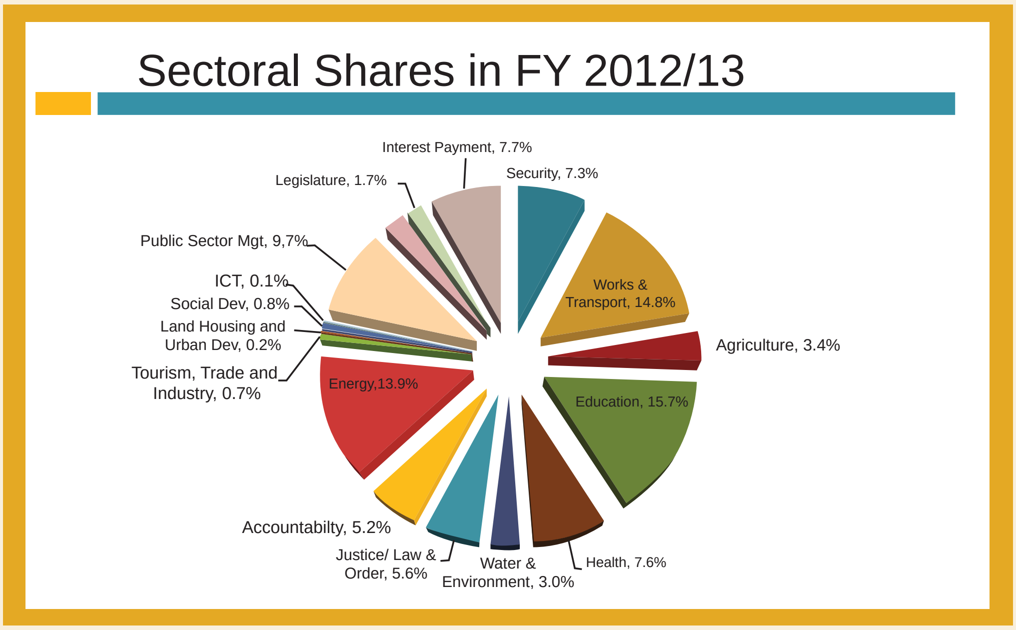
As a tool of economic policy, the budget is the means by which the government seeks to achieve three key economic policy goals, namely: fiscal discipline, which means controlling overall government spending so that it does not go beyond the amount of resources that have been raised; allocation of resources in line with the government s policy goals; and ensure efficient and effective use of resources in achieving its policy goals.

Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate scarce resources for the best economic use. They also have a political basis wherein different interests push and pull in an attempt to obtain benefits and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses.

This article focuses on the impact of the national budget on trade and wealth-creation in Uganda from an agricultural perspective.

Agriculture is one sector that is least funded by government programmes and yet it employs most of the Ugandan population. Uganda has a comparative advantage in the agriculture sector to boost both trade and wealth creation and therefore increasing budgetary allocation to the sector to reach 10% of the national budget as commitment of African head of state will increase agro-processing. The Budget speech (MoFPED 2010a) and background to the budget (MoFPED 2010b) indicate that policymakers are of the view that Uganda's immediate comparative advantage lies in developing agriculture into a modern, efficient and highly productive sector. Accordingly, Uganda has a comparative advantage in food production and has the potential of becoming the food basket of the region. Much as this claim lacks the empirical analysis and evidence that should form the basis for the argument, there is little argument to dispute this claim, as we all very well know, that agriculture is the back born of Uganda s economy, therefore increasing budget allocation to the sector will not only boost trade but as well lead to wealth creation in the country.

Despite the fact that the share of the agriculture sector in Uganda s total Gross Domestic Product (GDP) declined from 39.9 % in 2001/02 to 15.4 % in 2008/09, the sector still employs the majority of Ugandans estimated at 75% of the total population and over 80% of the 35 million Ugandans derive their livelihood from the agriculture sector.



Public spending is one of the most effective instruments for promoting agricultural growth and poverty reduction in Uganda, which ultimately boosts trade hence wealth-creation. In absolute terms, government spending on agriculture (national budget allocation to agriculture) increased from UGX 135 billion in 2000/01 to UGX 585 billion in 2012/13. This means the agriculture sector budget has more than doubled over the last 10 years. However, this is less than the growth in the total national budget, which increased more than threefold during the same period. The agriculture sector is among the lowest-ranked sectors in the national budget (Lukwago, 2011).

The National Budget Framework paper (2010-2011, p.83) states that, despite the increasing demand for value-added agricultural products and commodities to boost trade, Uganda still registers only 5% of value-added products and commodities. Lending to agricultural value addition was increased by 4%, from 34% in 2008 to 38% in 2009, but there is still a lending gap, especially to small-scale producers (PMA, *Financial Yearbook*, 2009, p. 11). According to the budget speech FY 2010/11, the Government of Uganda has committed herself to ensuring that there will be rice hurlers and maize mills in every sub-county across the country to increase the processing of agricultural products and value addition. However, poor coordination among the different chain actors, the low capacity of farmers to effectively participate in and benefit from the chain, and limited access to affordable equipment and machinery have made value-chain addition for small-scale farmers a nightmare (PMA, *Financial Yearbook*, 2009, p. 11). The perishability of these products and the lack of appropriate technology pose a big challenge to farmers efforts to engage in meaningful trade within and across borders.

Studies have also shown that investing in agricultural research and development is among the best ways for developing countries to reduce hunger and poverty, which eventually results in trade and wealth-creation. Since 1995, there has been no significant budget allocation to the agricultural research by the government and the little contribution by development agencies in terms of long-term donor support mainly went to enhance staffing and salary levels at the Ugandan National Agricultural Research Organisation (NARO). The ratio of agricultural research to agricultural GDP grew from 0.06% in 1990 to 0.71% in 2000.

Trade is continuously being appreciated as an enormous tool for development and poverty reduction. There is therefore need to have pro poor trade policies that ensure fair trade and economic justice at all levels.

These are aimed at increasing farmers incomes at the household level; this means they need to access ready markets for their produce and so have shared benefits of the economic justice and fair trade. At the same time, economic growth and poverty reduction strategies depend on access to sustainable markets domestic, regional and international. VEDCO will engage policy makers to put in place policies that favor farmers to competitively get fair prices for their produce at all levels.

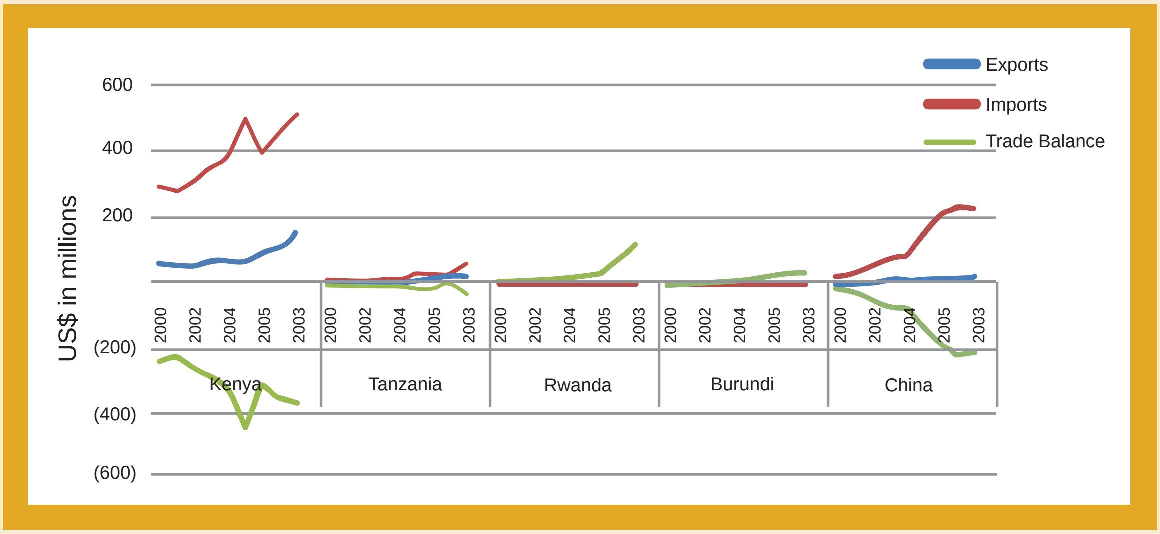
Trade is the key driver of an economy and a country. In order for an economy to survive, a country has to sell and buy within and across borders; and for an agricultural economy like Uganda, it is vital that the country trades for sustainability and growth. Uganda is a predominantly agricultural country and its economic development will depend on improved performance of its agriculture sector along the value chain. This will include production, transportation, processing as well as packaging.

Trade is essential for the satisfaction of human wants. Trade is conducted not only for the sake of earning profit; it also provides a service to the consumers. Society needs an uninterrupted supply of goods for the ever-increasing and ever-changing but never-ending human wants. Trade came into being with the advent of human life and will persist as long as human life continues on earth. It enhances the standard of living of consumers. Thus we can say that trade is a very important social activity. The manufacturer or producer produces the goods, which move on to the wholesaler, then to the retailer and, finally, to the ultimate consumer within and outside the country.

Trade minister Amalia Kyambadde speaking at a KAS conference on Oil Production in a Social Market Economy

Finance minister Maria Kiwanuka presenting the national budget

Figure 1: Uganda s trade with EAC partner states and China, (mill US$)



Uganda is a member of two regional trade blocs: the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA), which has a total membership of 19 independent states. The ratio of Uganda's trade flow to the COMESA has declined over the years, from 71.2% of the country's total exports to the world in 2003 to 37.6% in 2010. Likewise, the country s exports to the European Union dropped from 34 % in 2002 to 22.6 % by 2010, although this is narrower compared with the COMESA. Conversely, Uganda s exports to the EAC region grew by about 7.2 % from 2001 to7.5% in 2010. The drop in Uganda's trade flow to the COMESA could partly be attributed to the poor physical infrastructural network, which adds greatly to the cost of transporting goods. For example, inland transportation and handling for Uganda costs $2,150 during exportation and importation (World Bank and International Finance Corporation, 2011).

There is very little budget allocation for internal trade yet it is important as a launching pad for external trade. In March 2010, the total import bill for the previous 12 months was around US $3.9 billion, down by 6.1 % compared to the previous year (Budget Speech 2010/2011). Trends from the Ministry of Tourism, Trade and Industry reveal a growing gap between Uganda's export earnings and the import bill for the five years ending 2008. This gap has more than doubled, indicating a trade deficit of $2,801.6 million in 2008, up from $1,061.1million in 2004. This represents a drop of $1,740.5 million, which is about UGX 3.56 trillion.

The unfavorable trade balance can be attributed to the continued exportation of unprocessed agricultural products which form the bulk of Uganda's exports. In exchange, we import finished goods. It is, therefore, imperative that this imbalance is addressed if we are to achieve sustainable development and create wealth for the country through budgetary allocation to the agriculture sector, energy and road.

Conclusion

A national budget is the most important information document of the government and has a direct or indirect impact on trade and wealth-creation through resource allocation, taxation, inflation and interest on capital. The inability to use the budget as a development policy instrument to achieve dramatic and measurable progress in key priority sectors is inherent in the nature of our budget governance and the apparent budget indiscipline.

The government should tremendously increase the budget allocation to the agriculture sector, even beyond the Maputo commitment of 10% of the total national budget, as well as other sectors which boost trade, such as the energy and transport sectors and the Ministry of Trade itself if we are to have robust trade and wealth-creation in the country. This can be done through curtailing the cost of public administration and through the prudent utilisation of oil revenues for agricultural development.

WHY CITIZENS' PARTICIPATION IN THE BUDGET PROCESS IS CRITICAL

by Julius Mukunda

Julius Mugisha Mukunda is an economist from Makerere University and currently a Senior Programme Director at Forum for Women in Democracy (FOWODE). He is also a coordinator of the Civil Society Budget Advocacy Group (CSBAG), a coalition of individuals and organisations interested in influencing the national budget processes and specialised in the area of Economic Policy Advocacy.

Introduction

Citizen participation in the governance process is widely encouraged by academics and professional organisations and is a popular conference topic. Key public policy decisions are made during the public budgeting process, so this would appear to be an important opportunity for meaningful citizen participation. The budget is, of course, about figures but it is, foremost, about people and their needs and who and how people s needs are reflected in the budget. We must be concerned with making sure that the budget is gender-sensitive because the budget does not, in any country, affect men and women, boys and girls in the same fashion.

Good public participation practices can help governments be more accountable and responsive and can also improve the public s perception of governmental performance and the value the public receives from the government. Citizen participation can make local service delivery more effective. Government attitudes and the role of civil society are both key to improving budget participation. Participation is important as a means of improving the performance and accountability of bureaucracies and improving social justice in a country like Uganda. Budget participation can influence governments even

The budget is the skeleton of the state stripped of all misleading ideologies - Schumpeter (quoted in Brautigam, 2004)

where they have not embraced the direct involvement of citizens in decision-making. Participation can: provide information that improves technical or allocative efficiency; offer innovative solutions that would not have arisen from traditional decision-making; and raise the level of acceptance of programmes.

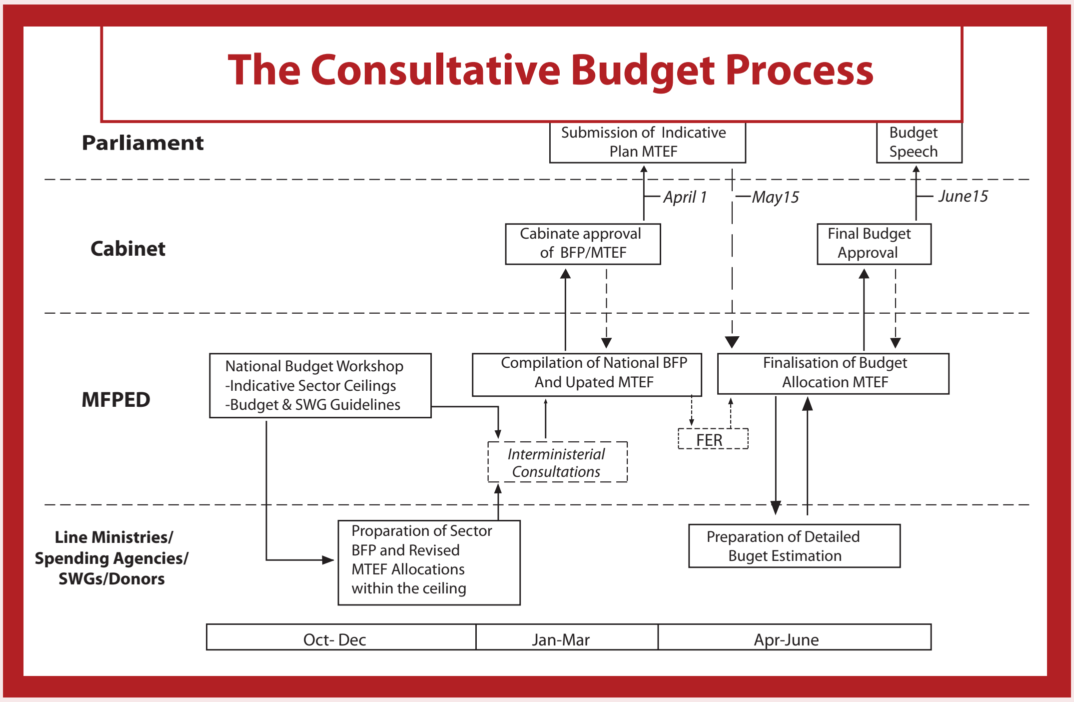
As budgeting helps concretise policies in implementable terms, citizen participation in budgeting does offer a very important space for the ordinary people to translate policies into actions. According to Schumpeter (quoted in Brautigam, 2004), the budget is the skeleton of the state stripped of all misleading ideologies and yet the budgeting exercise remains an exclusive domain of the bureaucrats and the technocrats, leaving little or no room for the participation and influence of citizens. If the budget is to become pro-poor (i.e. its expenditure and revenue decisions are to become more sensitive to the interests of the poor) it is important that the poor themselves participate in its formulation, implementation and monitoring in a manner that is equal, inclusive and collegial. Participation is a central element of democracy and, increasingly, citizen participation in economic policy is advocated as a way to make government spending more pro-poor

Uganda s budget process

A budget is one of the most important economic tools at the disposal of governments. While budgets can thus have a profound effect on the wellbeing of the people, the people generally have very little say in the formulation of budgets. To achieve pro-poor development, the government must allocate resources in such a way that the interests of the poor are taken into consideration.

The approach of the Government of Uganda (GoU) to national planning has evolved over the last decade, with reforms of the country s public expenditure management resulting in new institutional arrangements for planning and budgeting. Critical components of these arrangements include: SWAps, the Medium-Term Expenditure Framework (MTEF), the Poverty Action Fund (PAF) and the fiscal decentralisation process.

The national budget plays a central role in the GoU s economic and political functions. It is used as an economic policy tool to allocate public financial resources in accordance with policy priorities and to use financial resources effectively to achieve government policy goals. Important components of this process are the Budget Framework Papers (BFPs), which are prepared at national, sectoral and local government levels. They are five-year rolling frameworks used to streamline and guide the budget process, setting out planned outputs and their associated expenditures in the medium term. The figure below shows the budget consultative process in Uganda.



The 1995 Ugandan Constitution provides for the participation of civil society in influencing the policies of government through civic organisation: Every Ugandan has a right to participate in peaceful activities to influence policies of government through civic organisation’ (Article 38 Section 2, the Constitution of the Republic of Uganda, 1995).The constitution also compels the state to formulate and implement policies and programmes that are participatory. Furthermore, Article X of the National Objectives and Directive Principles of State Policy states that Government shall take the necessary steps to involve the people in the formulation and implementation of development plans and programmes which affect them . Article 38 of the constitution was later operationalised and transformed into decentralisation, whereby significant powers, functions, responsibilities and resources were devolved from the central government to local governments.

The decentralised system practised in Uganda is based on the devolution of powers, functions and responsibilities to popularly elected local governments. The local governments have the powers to make and implement their own development plans; to make, approve and execute their own budgets; to raise and use resources according to their own priorities; to appoint statutory committees, boards and commissions; to make ordinances and bye-laws that are consistent with the constitution and other existing laws; to hire, manage and fire personnel; to manage their own payroll; and to implement a broad range of decentralised services previously handled by the centre.

Civil society actors coming together for a pre-budget dialogue

If the interests of the poor are to be safeguarded in the budgetary process, it is essential that they have a voice in what goes into the budget and what comes out of it. But the mere expansion of voice is never going to be enough to protect the poor if the budget-making authorities cannot be held accountable for their actions. If the authorities disregard the interests of the poor, then either the poor themselves or someone else, on their behalf, must be able to make the authorities answer for it. In short, people must be empowered to secure their rights em powerment and accountability are two sides of the same coin. Expanding accountability, therefore, presupposes expanding empowerment.

Is the budget process pro-poor?

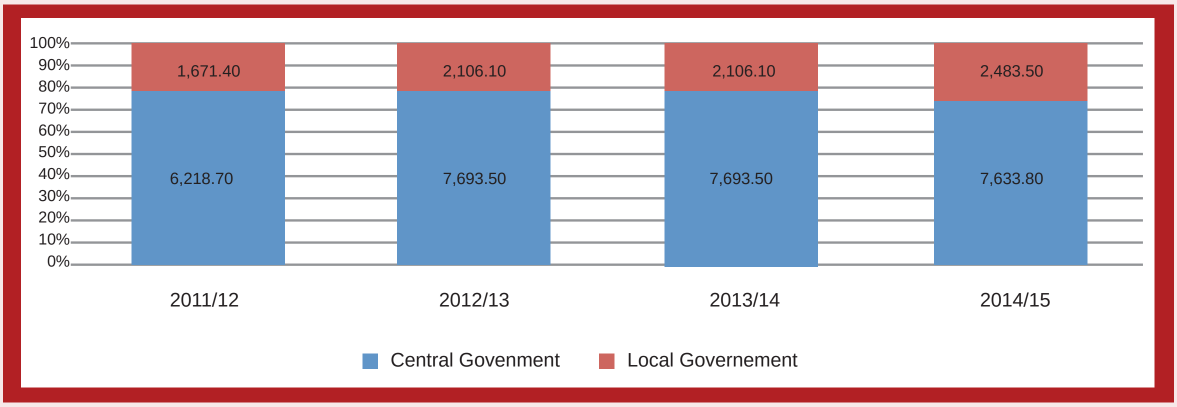
Uganda has achieved a marked reduction in poverty and emerged as one of the fast-growing economies in the region. Annual GDP growth averaged over 6.4% between 1992 and 2006 and averaged 8.4% between 2006 and2010. The domestic review as a percentage of GDP grew 12.9% in the financial year 2009/10.

Uganda has increasingly reduced her dependence on aid that hitherto dominated budget support. In FY 2010/11, donor support will only account for 25% of the total budget expenditures compared to 34%in FY 2009/10 and 48% in FY 2008/09. The economy has expanded by about six times from US$ 2.3 billion in 1986 to US$ 15 billion today. There are a number of key elements that will gauge whether the national budget process is pro-poor and I will look at two of them: 1) the budget process should be participatory; 2) it should allocate most of the resources with the needs of the poor women and men as the focus.

The current structure of the budget does not effectively address the needs of a certain category of the poor (especially the non-active poor). Findings from the Chronic Poverty Report (2005) revealed that an estimated 26 % of the total population (over 7 million) live in chronic poverty. Some key social sectors which benefit the poor most continue to be constrained by inadequate funding. For example, the health sector requires more than double the current spending in order to realise the minimum health care package (MHCP) of $ 28 per capita (currently government provides only US $ 9), while the agriculture sector, which employs over 73.3 % of the population, is allocated less than 4% of the national budget.

The spirit of decentralisation was that service would get closer to the people, but this cannot happen if resources still remain at the centre. Improving service delivery has featured in the previous five budget themes and it is also at the core of government planning. Despite the fact that the national budget allocations greatly focus on the social and productive sectors, however, the bulk of the funds is concentrated at the central government ministries and agencies, rather than at frontline service delivery points (which are mainly at local-government levels). This is reflected inTable 1 below.

Table 1: MTEF (excluding arrears & non VAT taxes), 2007/08 2012/ 14



Source: MFPED: NBFP 2012 and author for calculations of percentages

What should be done?

According to Albert Van Zyl, any budget process that is participatory should look like this:

1. *It should be comprehensive.* Only allowing participation in the capital budget or some other small corner of the budget is not good enough. All government funds are public resources and should, therefore, be decided on through participative processes. That is just what democracy is about.
2. There should be participation in *every phase of the budget process*. Influencing allocations without being able to monitor how those allocations are spent is of little value. Or excluding participation in the fiscal and macroeconomic frameworks that determine the size of the purse, can limit participation in the allocation and spending processes severely.
3. It should be accompanied by the *timely release of information about the proposed government budget choice or activity* as well as the information on which it is based. If citizens do not know what government wants to do and why, they cannot participate meaningfully.
4. It should happen *before government has made the decision or performed the action.*
5. Government should be obliged to *proactively facilitate participation.* Simply sticking an invitation for written submission in the government gazette is not good enough.
6. *Government should be required to explain how it responded to the decisions* and recommendations that emerged from participation and why. Government should not be allowed to smile politely and ignore these.
7. *There should be a mechanism of redress.* When you feel that justice has been denied in court, you can appeal. If you feel that the process of participation has been disrespected or ignored, you should likewise be able to seek redress.

THE ROLE OF NDP IN THE SOCIAL MARKET ECONOMY AND SUSTAINABLE DEVELOPMENT

By Richard Mugisha

Richard Mugisha holds a degree (Hons) in Business Administration majoring in management from Nkumba University, Uganda. He also holds a Diploma in Secondary Education obtained from Nkozi National Teacher's College. He has ten years professional working experience and three years experience in policy and advocacy related work. Since 2010 he has been working with PELUM Uganda as Program Officer for Policy and Advocacy.

The major development challenge facing the East African region at large is the increasing poverty level. Poverty in the region is characterized by increasing incidents of famine and hunger, increased unemployment and lack of incomes at both household and national levels. From time immemorial agriculture has been an engine of growth for many countries, with development trends indicating that world economies grow from depending on agriculture, through industry, to services provision. Agriculture, therefore, has the potential to be the key driver of sustainable development and a poverty eradication tool in the East African region (*SEATINI 2012: The potential for Agriculture to drive development in the EAC*).

Uganda is naturally endowed with significant natural resources, including ample fertile land, regular rainfall and mineral deposits. However, chronic political instability and erratic economic management have resulted in persistent economic decline that has relegated Uganda to the ranks of the world s poorest and least-developed countries, with a human development index ranking of 143rd out of 169 (UNDP, 2010). It is currently estimated that out of the 33 million people, 76% live slightly below the international poverty line of US $2.00 a day and 96% of the country s poor live in rural areas. Agriculture, being the mainstay of Uganda s economy, supports approximately 80% of the population, who entirely derive a livelihood from the sector. The fact is that the number of people affected by poverty and hunger in Uganda is increasing every day, and this means that agriculture is not realising its full potential as a driver of economic growth. This has been as a result of shocks such as massive land evictions/ land grabbing, pests and diseases, climate change, poor quality inputs, especially seed, a poor attitude towards agriculture, and inflation which eats into citizens small incomes, thus leading to failure of the national food production systems in the country.

In addition, the agriculture sector suffers the incoherence of the policy obligations the government undertakes at global, regional and national levels. At one point, they contradict each other and at another point the government fails to align the national polices with the international commitments undertaken.

For instance, Uganda is a signatory and party to both the Convention on Biological Diversity (CBD), 1992, the Cartagena Protocol on Bio-safety (CPB) 2000 and the Africa Model Law on Plant Varieties, among others. However, the national policy and legislation is not aligned with the objectives of such international commitments. According to the National Planning Authority (NPA), the poor performance of the agriculture sector has been as a result of a weak policy, legal and regulatory framework. Policies have been developed for the sector but the implementation has not been consistent with specific government programmes which they say has led to uncoordinated intervention. In addition, many policies are not in place, some have gaps, and many have not been implemented

As a result of the liberalisation of Uganda s economy, in the late 1980s, Uganda undertook major policy reforms under the Structural Adjustment Programmes (SAPs). The agriculture sector, too, was liberalised as part of the overall policy measures that opened the economic environment up to free market forces. This act alone witnessed the drastic reduction of the government s role in agricultural production, marketing and distribution. The government also left the determination of the price paid to the farmers to the private sector; as a result of this Uganda has the most liberal trade regime in the African continent today (*SEATINI 2012:The potential for Agriculture to drive development in the EAC).*

Now, following the evaluation of the implementation of the 10-year Poverty Eradication Action Plan (PEAP) the Government of Uganda has launched the National Development Plan (NDP) 2010/11-2014/15. The NDP, whose theme is Growth, Employment and Socio-Economic Transformation for Prosperity , is the new strategic planning framework for Uganda s development for the five years 2010/11–2014/15. The plan is formulated on the basis of a broader national vision for the transformation of Uganda from a peasant society to a modern and prosperous country over the next 30 years by significantly improving specific development indicators associated with socioeconomic transformation.

NPA Executive Director Longino Tisasirina speaking at a roundtable discussion organised by KAS and ACTADE

It should be noted that the NDP recognises that, in spite of the commendable economic performance over the last two decades, there were still challenges that continued to undermine faster economic growth and socioeconomic transformation. They included the failure to achieve significant agricultural productivity growth and the release of excess labour from the agriculture sector and the dominance of primary commodities over industrial products, implying the lack of value addition and slower than desirable agricultural and industrial growth, among others.

The NDP identifies four broad national investment priorities, one of which is "Facilitating Availability and Access to Critical Production Inputs . The NDP is also the basis for the Development Strategy and Investment Plan (DSIP) which translates the broad public sector interventions outlined in the national plan into a sector-wide plan with specific sub-programmes, activities and targets. In other words, the restoration of agricultural growth as an engine of employment creation, poverty reduction and industrialisation are central to the NDP.

Therefore, the NDP is critical at this moment because the message of transforming Uganda into a middle-income country will inspire Ugandans to effectively participate in the development processes. For any country's economy to increase its Gross Domestic Product (GDP) it has to address issues of unemployment for its citizens as well as promote exports.

The NDP seeks to achieve a number of objectives which, among others, include the following: increasing household incomes, increasing access to quality social services, enhancing the availability of gainful employment and promoting a sustainable population and use of the environment and natural resources.

Implementing the NDP will follow two main approaches. The first is the quasi-market approach that includes a mix of government investments in strategic areas and private sector-driven actions. Under this arrangement, the private sector will remain an engine of growth but the government will undertake the facilitation role through the provision of a favourable environment and also actively promote and encourage public-private partnerships. The second is the business approach which will basically work to improve public-sector delivery and support private-sector growth.

Whereas Uganda has several policies, programmes, plans, and laws, there is need for it to understand its comparative and competitive advantage in order to potentially position itself as a food basket of the region, thus promoting rural livelihoods, employment, and sustainable development domestically.

In addition, Uganda should strengthen the capacity of non-state actors to carefully take up the opportunities provided in the NDP and be able to develop into a strong social market economy.

NPA Chairman Dr. Wilberforce Mugerwa talking at a KAS event

Conclusion

The NDP plays a key role, for its addresses the structural bottlenecks in the economy for accelerated socioeconomic transformation for prosperity. Further still, NDP highlights various interventions aimed at creating employment, raising household incomes, increasing the country s competitiveness, eradicating poverty, facilitating availability and increasing access to critical production inputs. It also provides the institutional, regulatory and policy framework that promotes public-private partnership. Therefore, if all citizens in development work could embrace NDP s principles Uganda would, when it marks the centennial anniversary of its independence, indeed be counted among the highly industrialised, high-income countries.

THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

By Paul Busharizi

Paul Busharizi is currently the contributing editor – Business & Politics at the Vision Group. Prior to his current appointment he was the Business Editor at the New Vision for seven years. Previously he was a Reuters Correspondent for Uganda, a stint which took him to various parts of the country and to the DR Congo. He is a graduate of psychology at Makerere University.

The private sector s role in development has been subjected to large doses of scepticism and outright hostility by its critics, while attracting a lot of lip service, on one hand, and gushing praise, on the other, by its proponents.

Economic growth □an increase in the wealth of a nation over a given time □is a necessary condition for development, where development can roughly be defined as a general upliftment of the living standards of the citizens of a nation.

The most effective creator of wealth is the private sector; therefore, a viable private sector is critical to economic growth.

But while growth is a necessary condition for development, it is not sufficient. You can have growth with little or no development. This paradox has its roots in the organisation of society and how its private sector operates.

The private sector, driven by the profit motive, allocates resources through a series of experiments, to where the highest return for the lowest relative risk can be found.

So, for example, there is a higher return with relatively little risk, in money-lending as opposed to normal trade. But there are higher returns in trade than there is in manufacturing, with the risk being higher given the high outlay in capital equipment required for the latter.

Capital, they say, is a coward. In its search for returns it would rather settle for a lower return that is less risky to attain than gun for higher returns in high-risk areas. This equation is further complicated by the definition of risk, which is largely subjective and in the eye of the beholder.

For instance foreign businessmen may consider doing business in Somalia, eastern Congo, South Sudan or even Uganda very risky compared to doing so in Switzerland, France or Australia, but there are businesspeople not only doing business in these risky areas but thriving as well.

Risk is mitigated by knowledge. So, for example, investing in new areas is more risky than in more established sectors, where there is wealth of experience about how the market operates.

The issue of how the market perceives risk is its major stumbling block to furthering development.

The market is unlikely to invest in the social services, which investments have a long repayment period and are, therefore, more risky in the eyes of private capital.

For instance, the market may not be able to discern a potential return in setting up a borehole in a village or providing education free of charge or providing free mosquito nets to a community. But it is these social services that give more people a chance to climb up the social ladder by being more productive persons.

Markets have a tendency to give more to those who have than to those with nothing, with the latter having even the little they have taken away.

The welfare of people goes beyond

improved income to include access to social services, markets and basic human rights.

Transforming growth into development is oftentimes involves directing and facilitating the private sector or markets to operate in the interests of the general society and not just for a minority who control the levers of capital.

This calls for interaction between the state the facilitator of development through distribution and the markets, which generate the growth.

And that is where the challenge lies: If it is agreed that markets and governments need to coexist to ensure an equitable sharing of a nation s bounty, what form does each party need to assume to achieve this noble goal? Why, for instance, can governments not be in charge of generating wealth and distributing it at the same time?

The reason why markets can create wealth and are no good at distributing it have been enumerated above.

In his book the *Truth About Markets*, Professor John Kay explains that for markets to work an atmosphere of disciplined pluralism needs to exist where decision-making in organisations and economic systems is best made through a series of small-scale experiments, frequently reviewed, and in a structure in which success is followed up and failure recognised but not blamed.

Governments, which by their nature are centralised, hierarchical and personalised, are not the kind of environment that can foster this disciplined pluralism that creates enduring wealth, Professor Kay explains. It has not always proven very effective in harnessing the power of the private sector either.

Writing about the collapse of the Soviet Union as the epitome of centralised planning, Kay said:

> Many of the failures of centrally planned economies were failures of innovation. The pluralist programme of experiment, failure and fresh experiment did not occur in the Soviet Union, and so that country did not produce new drugs, modern automobiles or personal computers.

However, the greatest failure of centralised planning is coordination. No one authority can think of all the needs of the people at any given time and respond to them with increases or decreases in production. The market, through price signals, does this effectively, almost spontaneously minimising the duration of shortages and gluts to ensure equilibrium.

Socialism failed because it substituted centralised direction for discipline pluralism and because it could not handle the issues of incentive compatibility, Kay says.

Market failures are so frequent that government control of the markets is never far around the corner.

The challenge is how the government can regulate the markets in such a way that personal return does not supercede social benefit.

The government can ensure society-wide benefits from this growth by, first of all, creating an enabling environment for the private sector to operate in through ensuring that the rule of law is observed and through providing physical infrastructure, social services and other public goods. Secondly, the government can encourage the private sector to invest in places it would otherwise not invest in by lowering the cost of doing business in those areas through underwriting infrastructure, tax concessions and any other incentives within its power to give without distorting the market, and thus preventing disciplined pluralism from flourishing.

As it is, the private sector or the markets cannot be legislated into existence.

Markets evolve depending on the opportunities that exist and the context in which they find themselves, which explains the frequent failure of attempts at grafting capitalism from the West onto developing nations.

Markets generate wealth in places where property rights are discernible, secure and transferable.

Property rights should not be thought of only as represented by the title that identifies land or the log book that shows that you own a car.

'Formal property is an instrument of thought, representing assets in such a way that people s minds can work on them to generate surplus value, says Hernando de Soto in *The Mystery of Capitalism*.

The appreciation of property rights in the West, which has evolved into the appreciation of non-physical property intellectual property has taken centuries to evolve into its current standardised, enforceable form.

Many times market failures are part of an evolutionary process of the institutions needed to facilitate markets that cannot be short-circuited. Africa s misadventures over the year are part of this process.

The private sector s role is critical to development but not without being tempered by government oversight to make sure it works for the benefit of the majority, not the minority.

THE WAR WITHIN

By Angelo Izama

Angelo Izama is an investigative reporter and blogger at Monitor Publications. He is an Open Society Fellow. He was a 2011 Knight Fellow at Stanford University working on journalist security. He previously held a NED Reagan-Fascell Democracy fellowship and has founded a human security think tank in Kampala. He was a special projects writer at Monitor Publications and obtained a law degree from Makerere University in Kampala.

Along Uganda s highways, dotted with small towns and random markets, is the ubiquitous presence of men sitting around watering holes chatting and imbibing local brews. Alcoholism has long been a subject of debate for the domestic feminist club clustered around the study of gender power relations. The story goes something like this: that the construction of traditional power relations around a resilient patriarchy has long favored men over women. In economic terms, it means that women have less power in the home even if in the villages they do most of the work, growing food and raising children. When the surplus produce is sold, like at the truck-stop markets, the proceeds are captured by powerful men, who then spend most of them on drink.

This narrative for the most part is true. Studies on the relationship between the genders to such family assets such as land have shown, unsurprisingly, that women have less say in the commercial consequences of their labor. Besides this, their work has been compared to that of indentured slaves tethered to a system that does not reward nor recognise them.

Since the majority of women in Uganda are rural-based their status and its relationship to the home economy have rightly been observed to be an important destination for social and economic policy intended to win back their dignity and status and balance decision-making in the home such that the benefits of equality can be seen in welfare outcomes i ncluding perhaps better economic ones. To be sure, the state of gender relations and the home as a primary unit of the community are also the fountainhead of the conversation about the relationship between the citizen and his government.

Shared responsibility that breaks from the mould of patriarchy, some would argue, means that men should stop hanging around village bars and return to the fields to dig and produce food, stop squandering family savings and invest in the welfare of the home. A corollary here is the argument that with gender parity that younger women or the girl child' would also be a beneficiary. She would no longer be the illegal laborer who is prematurely inducted into the servitude of her seniors or pawned off for bride wealth to continue the tradition of second-class labor in another man s home.

Policies for affirmative action, which draw from the Uganda constitution of 1995 which put gender relations at the core, have seen to this. Moreover, the girl child , as the investment in the future to overturn this African historical dilemma, has produced some major results in Uganda.

More girls go to school today. Many have been liberated from their traditional roles as gardeners and child-bearers and now take up various jobs in the growing towns and cities. Before modern constitutional and legislative engineering of gender relations arrived on the scene Uganda s colonial power had attempted to divorce the rural man from his alcohol. The idea was not driven by attempts to rescue his women brethen.

Attempts were made to punish alcohol production and consumption that culminated in the *Enguli* (local brew) Manufacture and Licensing Act 1966, passed two years after independence. At the heart of this piece of legislation was the intention to bring alcohol production and consumption under the control of the central government. But beyond its economic purpose, the taxation of alcohol had its social underpinnings.

In some parts of Uganda, such as West Nile, local brew provided a solace from the colonial economy, which mandated the growing of labor-intensive cash crops like cotton and tobacco.

Women coming from the garden carrying firewood

Some lenses may have looked it at as an act of resistance even. Other administrative taxes, including the base tax called graduated tax, tailored to production were meant to bring the rural workforce into the colonial economy. However, one negative aspect of this relationship between taxes, the enforcement or lack thereof, alcohol and the home as both a social unit and an economic one, has to do with changing power relations. Legislation and the administration of new laws, including new taxes in the context of a foreign economic model (the colonial model), were affecting the Ugandan or African man. Participants in this model were progressing within the class structure at the time. In many ways the cash crop man who could pay his taxes was an improved person and could discharge his duties at home, providing for his home it and guaranteeing its protection.

However, the collapse of the cash crop economy following disruptive political events from the late 1960s to the late 1980s, impacted negatively on the home. State failure meant that the power of the government to police economic behavior was limited.

New economic opportunities were less well managed, as one can surmise from the doldrums of Uganda s agriculture sector. Agriculture, as a centerpiece of the economy, never recovered its potential in the years preceding independence and immediately afterwards. Men also were never returned to the fields and excluded in an economic system that extended benefits to their homes.

On reflection therefore the agricultural economy as a driver of social and gender relations was upset. Neither was that balance by default of a division of labor with women tending to the gardens and children and men working cash crops for earnings partly to fulfil their tax obligations, really ever restored. The government that succeeded the colonial one with the most stability in terms of the power of the centre is the National Resistance Movement, the same one that pioneered constitutional and legislative correction of gender relations through affirmative action. However, one can argue that the economic basis for stable gender relations had ebbed away with the dearth of opportunities, particularly in the agriculture sector.

Secondly, the posture of government enforcement of taxes, that earlier incentive for male heads of the family to be gainfully employed, was different. At separate times the new political dispensation actually abolished wealth -inducing taxes like the graduated tax not just because they continued to be resisted but also because real opportunities to earn that pay were absent. Political populism was instead constructed both on the freedom of the genders (the liberation of women) as well as the freedom from taxes. One may ascribe this episode partly to the earliest 'Dutch' disease that afflicted the post-1986 NRM where efforts to reconstruct the state relied mainly on huge infusions of donor aid which, ironically and simultaneously, also pursued social policies of gender parity. Not needing taxes immediately because of donor aid, the new state also relied on the reconstruction funds to restore confidence and popularity in the government.

Perhaps a few questions are worth ending with here. One: Did the colonial moment also provide a more stable model for social engineering, advancing household incomes while balancing the home as a social and economic unit in which the participants also had more conventional relations as citizens in a tax economy? Two: Did social engineering post-1986 w ith economic liberalisation as well as constitutional reforms unleashing the power of women into the general economy p rovide the best hope in the long term? Three: What do these forms of social, economic and even political re-ordering ultimately mean for the social-democratic state? I would argue that an effective state is an agent for real change and that, despite a raft of reforms, the weak state post-1986, even with modern reforms in the area of gender relations, has been slow to reap the benefits of social change. In particular, the story of the collapse of the agricultural economy as seen from the retreat of the government from agriculturally based taxes, and in the absence of real alternatives, reveals the dilemma not just for the African home but also for the rural community itself.

UGANDA'S ECONOMIC CHALLENGES – A YOUTH PERSPECTIVE

By Bernard Mukhone

Bernard Mukhone is the Coordinator of the „Young Leaders Think Tank for Policy Alternatives", an initiative supported by the Konrad-Adenauer-Stiftung. He is an entrepreneur and the CEO of Elegant Group of Companies and also works as a freelance consultant specialised in project implementation and events coordination and management. Currently he is pursuing a master degree in „Local Governance and Human Rights" at Uganda Martyrs University.

Uganda remains one of the fastest growing economies in Africa. If we measure economic progress in terms of growth Uganda has been doing well for more than two decades and continues to do relatively well, despite the more recent economic challenges as a result of both domestic and external factors. So should we celebrate our economic status quo in the year of the 'Golden Jubilee'? From the perspective of a concerned youth the answer should be no .

Much as the past economic achievements in Uganda are commendable they should not make us too euphoric. A realistic assessment of our economic status quo and outlook must consider much more than just growth rates. The things we should actually look at include aspects such as social cohesion and social justice, poverty levels, distribution of wealth, provision of social services and economic opportunities for the people. And if we turn our focus to the future we cannot fail to also talk about issues of sustainability and intergenerational justice. A critical look around can reveal that Uganda is not doing particularly well in all these areas.

Poverty levels in the country remain high. For the many people still living in poverty, especially in the rural areas, the economic growth that we often boast of has not brought much improvement to their living conditions. The ideal of social cohesion and social justice is far from being realised in Uganda. Indeed social inequalities have increased and can easily be seen in the unequal distribution of income and other resources and opportunities. The gap between the rich and the poor, the haves and the have-nots, is growing. Uganda offers vast opportunities for those who already have power and money. For those who don't have it - well, there might still be some abstract hope that things will get better - but tangible opportunities are rare. This situation leads to apathy on the one hand, frustration and potential social unrest on the other hand. In any case it is not healthy for our country.

Infrastructure and public services in Uganda are in a poor state. Fixing this is not a matter of filling potholes with soil in Kampala. It is about setting the right priorities and about showing an interest in Uganda s biggest resource: the people. Uganda has one of the worst health systems worldwide. The education sector has improved with regard to enrolment rates, but when we look at completion rate we get a much different picture (25% completion rates in UPE schools). Health and education should be priority areas - rhetorically this is already consensus in Uganda, but the de facto situation looks much different. We just have to look at the huge chunks of the state budget that go to defence and the government bureaucracy as compared to the insufficient funds for health and education. The national budget is not pro-poor and it is not pro-people.

If it was, we would see more investment in the people of this country - which investment would trigger economic transformation and change directly and indirectly.

We have to understand that the social dimension of our economy is not just about charity i t is about investing in people and creating opportunities. People who are free to fully exploit their capacities, and who are given opportunities to realise their potential, are the driving force behind a prosperous and sustainable economy which I suppose all of us look forward to. Healthy, competent and empowered people are the key to economic success. This realisation should be at the core of our social and economic policies.

According to the World Bank, Uganda has the second youngest population in the world (after Niger). It also has one of the fastest growing populations worldwide, growing by at least one million people every year. The young people are the country s biggest resource. If this resource is used well it can really move the country forward. If it is not used well, if we do not invest in it, this resource can actually turn into Uganda s biggest burden; a great risk for the stability of the country. This vast resource might as well be a ticking time bomb should we not harness it well and improve the status quo.

At the moment, the situation of the young people in Uganda is characterised by frustration and uncertainty. Uganda is among the countries with the highest youth unemployment rates worldwide c urrently at 83%. Around 400,000 youths are released into the job market every year. They compete for just around 9,000 available jobs. One cannot fail to wonder: What happens to the rest?

Young Ugandans need to be given opportunities, hope and perspectives for the future. Their vast potential - their energy - needs to be channelled into constructive ways. If we succeed in bringing the youths on board, instead of excluding most of them from employment and economic opportunities, they can indeed become the drivers and at the same time the key resource for a socio-economic transformation of the country. If Uganda commits to supporting the young generation as drivers of transformation it could actually realise the ambitious goal of reaching middle income status and also achieve a better social balance sooner than later.

The most urgent step to support the young generation is to create employment opportunities. Closely linked to that is the need to improve the education sector. Only well qualified young people can meet the requirements of the job market in a modernising economy and become transformers of the economy and society. In order for Uganda to

Members of the Young Leaders Think Tank for Policy Alternatives with former German President Prof. Horst Koehler benefit from the vast resource which the young generation provides, we first need to invest a lot more in that generation. Uganda needs more investment in what we refer to as human capital .

The Young Leaders Think Tank for Policy Alternatives, supported by the Konrad-Adenauer-Stiftung, has undertaken extensive research on both employment and education policies and came up with clear policy recommendations. We hope that our political leaders are willing to listen to the input that comes from the young generation.

The recommendations brought forward by the Think Tank in order to address the challenge of youth unemployment include among others the introduction of tax incentives for companies that create jobs for young people, the establishment of national job centres, as well the creation of an enabling environment for young people to start up enterprises, particularly by enhancing access to financial capital. But the task of enhancing employment opportunities for young people is also closely linked to the need for improvement in the education sector. The Think Tank has brought out clearly that what the education sector needs is not just better financing (for example for improving teaching materials and facilities and paying teachers an attractive salary), but a review of our general approach to education. The young people need education that helps them to fully exploit their potential and exploit existing opportunities - or even better: create new opportunities for themselves. Thus, we need to provide more options for learning outside the school environment (internships, excursions, field projects etc.) and for real on-the-job training (particularly in vocational education). We should encourage independent and experiential learning, focus on learners potentials and competences rather than shortcomings, and strengthen analytical and critical thinking as well as problem solving abilities. In light of the unemployment challenge, we need to enhance links and partnerships between the business community and the education sector and create more systematic links between schools and the job market.

Ultimately, what is required of course goes beyond some adjustments in the employment and education policies. We need to ask the question where we are heading as a society and economy and how we want to steer our onward journey. What values and principles shall guide us in our efforts to achieve prosperity? Do we want to continue looking at growth rates while overlooking the marginalisation

Presentation by the Think Tank on Youth unemployment and exclusion of large parts of the population - and probably a whole generation? Or do we want to search for ways of how to transform our economy not only in terms of growth but also in terms of inclusiveness and sustainability?

The young people of Uganda are ready to come on board and to become drivers of such a transformation. If they are given the chance, they can move this economy forward. But in order to get there we need to rethink the way we look at our economy. What we need is a more holistic approach that does not leave out the social dimension. We need to be future oriented, not only with regard to growth projections, but with regard to the society we want to create and leave behind for future generations. Apart from becoming more inclusive, pro-poor, ecological and sustainable, our economic and social policies must be guided by the principle of intergenerational justice.

Intergenerational justice is achieved when the chances of successive (future) generations to satisfy their needs are at least as high as the chances of the current generation (or past generations) to do so. Thus, we need to ask: What are the chances and opportunities for our young generation? What are we doing to improve the chances and opportunities for the current and future generations? What are we going to leave behind for future generations?

Our forefathers did not have the opportunities that we boast of today, let alone success stories to learn from, but yet laid a foundation for us for the future. And now the future of our country is here and in our hands. We either embrace it, nurture it and direct it to where it will achieve optimal results - or we ignore it or just wishfully think and talk about it, and be sure disaster will strike when we least expect it. In that case we can as well forget about the 2040 vision that we now are very fond of.

The ***Young Leaders Think Tank for Policy Alternatives*** is an initiative of the Konrad-Adenauer-Stiftung to enhance youth participation in governance and policy formulation in Uganda. The Think Tank is a group of around 20 highly qualified and committed young Ugandans who interact and work together on a regular basis in order to analyse policy issues and develop policy alternatives from the perspective of the young generation. The group members lead by example in the promotion of issue-based and constructive dialogue and debate, adhering to the guiding principles of tolerance and objectivity.

Given its current demographics, Uganda is an extremely young country in international comparison and with the high birth rate in the country the population will continue to grow significantly, and young people will make up a growing percentage of the Ugandan population. This development comes with a number of chances and challenges, and whether the chances will be exploited and the challenges be managed well depends heavily on the willingness and ability of political actors to ensure the successful involvement of the growing number of young people in the process of national development and in decision-making. In order to avert negative developments, future policies have to be designed in a way that they ensure sustainability and inter-generational justice.

In this light, the *Young Leaders Think Tank for Policy Alternatives* aims at

- Providing a platform for young leaders to discuss policy matters in a constructive and non-partisan manner
- Enabling young leaders to develop and formulate alternative policy suggestions reflecting the interests and concerns of young Ugandans
- Giving a voice to the young generation by publishing position papers and organising public dialogues
- Strengthening the skills of young leaders in analysing and debating policy issues and formulating and presenting positions
- Encouraging young multipliers to lead by example in focused, issue-related and constructive political interaction and debating.

The Social Market Economy stands for…

Konrad Adenauer Stiftung

…solid public finances.

Any experiment in the character of supposed welfare of charitable attitude to spend more money than the Treasury's revenues, breaches good and proved principles. (Ludwig Erhard)

…a commitment to social partnership and collective bargaining. Employees and employers can organise their labour relations better than the state.

Everything must be done to relocate the focal point of life's responsibility from the governmental centre to the position, which reasonable thinking and historical experience naturally demand, […] to the decentralised non-governmental organisations. (Wilhelm Röpke)

…a functioning competition between companies preferably without distortive subsidies. Competition is a guarantor for innovation.

If there is no or insufficient competition, there will be an interference on the constitutionally desired driving forces of market prices. The production of goods and the distribution will be steered in an undesired direction. This misdirected economic cooperation, however, is not even the crucial point. More importantly, the substance of social justice in the free market system is disrupted. (Franz Böhm)

... equal participation in a meritocracy. This concerns the opportunities on the labour market, the possibility for economic mobility by education and social integration assistance for immigrants.

It is an essential part of a positive family policy to offer equal living conditions and opportunities for advancement by providing equal educational opportunities on the various levels according to affinity and aptitude of our youth regardless the income and the assets of their parents. (Ludwig Erhard)

…the appreciation of family and civic engagement.

We firmly believe that there is an infinite number of things more important than the economy: family, community, the state, all forms of social integration in general […]. (Alexander Rüstow)

…open markets in a globalised world not regulated by tariffs and trade restrictions.

We strive for the greatest possible freedom in foreign trade in order to emphasise the principle of the international division of labour and its benefit for all peoples. (Ludwig Erhard)

…an independent monetary policy focussing on maintaining price stability.

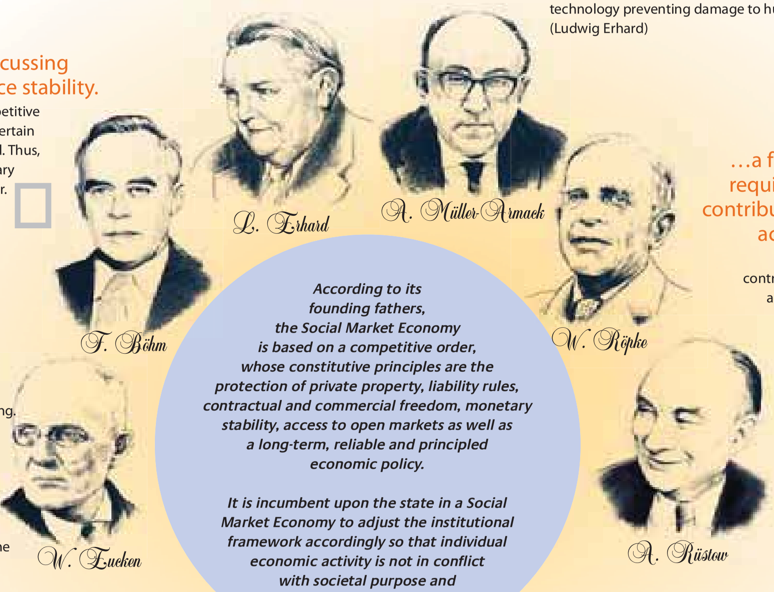
All efforts to achieve a competitive system are in vain unless a certain monetary stability is assured. Thus, there is a primacy of monetary policy in a competition order. (Walter Eucken)

…a 'strong' state providing guidelines without intervening in all areas of life.

A strong state is not one interfering in and attracting everything. On the contrary, the truly strong state is not characterised by the complexity but by the independency of interest groups and it is identified by the rigid enforcement of its authority and its dignity as representative of the public. (Wilhelm Röpke)

…the solidary assurance of life risks whilst ensuring the principle of subsidiarity.

Economic freedom and social compulsory insurance are incompatible. Thus, it is necessary to recognise the principle of subsidiarity as one of the most crucial organising principles for the social assurance and to give priority to self-help and individual responsibility. Accordingly, the government shall halt protection wherever the individual and his family are still able to make independent and responsible preparations. (Ludwig Erhard)



According to its founding fathers, the Social Market Economy is based on a competitive order, whose constitutive principles are the protection of private property, liability rules, contractual and commercial freedom, monetary stability, access to open markets as well as a long-term, reliable and principled economic policy.

It is incumbent upon the state in a Social Market Economy to adjust the institutional framework accordingly so that individual economic activity is not in conflict with societal purpose and the freedom of others.

... the acceptance of differences in income, as long as the gap between poor and rich is not too wide. Precisely here, government policy of distribution steps in.

It was demonstrated that the distribution of the national product by the price mechanism […] is better than the distribution based on arbitrary decisions by private or public corporations. […] Also with this distribution mechanism, however, questions remain unanswered and it requires adjustment. […] The income inequality leads to a situation where the production of luxury goods already takes place although the urgent needs of low-income households remain unmet. Thus, this is, where the distribution in a competitive order requires adjustment. (Walter Eucken)

…the protection of livelihoods and sustainable, resource-efficient economic activity.

The protection of the people against damages caused to the environment requires the economy to recognise and realise its social responsibility in taking adequate measures in the development of technology preventing damage to humanity. (Ludwig Erhard)

…a fair system of taxation requiring the individual to contribute to the community according to his ability.

For instance, it is extremely contradictory if the citizen complains about the unbearable tax burden and, at the same time, expects state aid, which, in turn, give the government the moral right to levy even higher taxes. (Ludwig Erhard)

…a strong entrepreneurship and the commitment to small and medium-sized businesses. Accepting responsibility and risk-taking are important pillars of social progress.

The transfer of responsibilities […] imply a system in which the entrepreneur fulfills an economic role in addition to securing his own economic existence, even though this is not always apparent and evident to the individual. He may not be aware of his economic task; nevertheless, he performs this role if in this system of a market economy the free formation of prices and the engine of the competition remain protected and vivid. (Ludwig Erhard)

… flexible thinking not interpreting freedom and social balance as opponents.

The market economy is the most docile, digestive and vital economic order, which can be imagined. As long as only a minimum of core conditions are met, it is remarkable how long it can deal with poisons, contaminants and heavy burdens – perfect and upright. […] And I hereby add: even this digestive power of this […] system is not infinite. The longer the exposure, the more visible the damages, the more critical the test of endurance, which also this system could eventually not withstand. (Wilhelm Röpke)

…core regulatory beliefs, which should be enforced on European and international level in the interest of economic stability.

The Social Market Economy as a regulative policy aims to combine, on the basis of a competitive economy, free initiative and social progress. (Alfred Müller-Armack)

…an ethical foundation for the economic and social order.

Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity of others, firm moral standards – all these things people must internalise when entering the market and competing with each other. (Wilhelm Röpke)

…confidence in people's talents and skills, i.e. their talent for freedom. It relies on the principles of personal responsibility, the protection of property, freedom of contract and decentralised decision-making.

Civic freedom is an illusion as long as it is not based on the fundamental economic liberties of the free movement of capital and labour, the right to private property and the ability to secure an honest profit. (Alfred Müller-Armack)

The Konrad-Adenauer-Stiftung promotes these principles: in Germany, in Europe and worldwide

The **African Centre for Trade and Development (ACTADE)** an independent, non-political, non-governmental organization fully registered under the laws of Uganda. It was established for the purpose of influencing and facilitating the development and promotion of trade and sustainable development through generating innovative policy ideas and policy alternatives in order to address both short and long term public policy challenges in the ever changing global, regional, national and local contexts.

The work of ACTADE as research organisation and think tank concentrates on thematic areas and programmes including: Trade Policy and Economic Development; Climate Justice for Sustainable Development; Budget Analysis and Information Initiative; and Basic Needs Basket.

The components of ACTADE programmes are: research, dialogue & debate, capacity building, information dissemination, and alliance building.

The **Konrad-Adenauer-Stiftung (KAS)** is a German political foundation that works worldwide in the area of civic and political education. For over 30 years, KAS has been active in development cooperation in Uganda, undertaking programmes and activities geared towards fostering democracy, promoting respect for human rights, strengthening the rule of law, and supporting a dialogue on meaningful economic policies. The activities of KAS have in particular involved working with Ugandan partners including civil society organisations, government institutions, the media and politicians in contributing to the promotion of democratic governance.

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