Institutional Change for Growth and Poverty Reduction in Low Income Countries: The Case of Uganda

Jonathan Di John and James Putzel
London School of Economics

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This paper examines the historical political economy underlying the relatively successful post-war reconstruction in Uganda in the period 1986-2004. One of the principal aims is to examine what factors have been central in turning a weak predatory state and unstable polity into a more developmental state and stable polity. The process of institutional changes (or path changes) is by nature an historical process that involves changes in the rule of the game and changes in power balances. Because transitions involve contestations over who will control the rules of the game, that is the regulatory structure of the state, it is not possible to develop abstract theories as to how transitions will evolve in each context. Power struggles and the specification of rights and institutions that result from some resolution or settlement of conflict are historically specific processes. However, an historical and analytical narrative can provide clues as to what political processes and sequences of reforms can make growth-enhancing pro-poor institutional change possible. It is through the comparison of case studies that one can build, however cautiously, a range of policy options that may be appropriate for other post-war, low income countries.

Using historical political economy analysis, this study will examine the opportunities and constraints for institutional change in Uganda, and link these to operationally relevant issues for the international donor community. In attempting to understand the processes of institutional and political change, the following dynamics will be explored: a) *building coalitions between the poor and elites*, b) examining why *windows of opportunity* for reform are opened and why some opportunities for reform are open but then close; and c) the constituting role *threats* to the political system can play in building state capacity and legitimacy.

Political economy analysis highlights the need to think differently, and much more historically, about how to help build and shape public institutions. The basic premise of this study is that understanding institutional change requires analysis of the interaction of economic and political processes. While much work on poverty and aid effectiveness has focused on defining the 'right' institutions, and the 'right' incentives, the premise of this study is that institutions, such as property rights, are not only an incentive structure but also simultaneously reflect power relations. For instance, establishing rights around a fishery provides the *incentives* to manage the fish stock efficiently. However, in a world of scarce resources, establishing fishing rights *simultaneously* imparts a distributional advantage that favours those able to become the owner of the fishery. It is thus not possible to separate issues of incentives and efficiency from issues of distribution and equity. As a result, conflict and conflict settlements, and thus the political process, are an intrinsic part of the process of building effective institutions. Historical political economy analysis also highlights the extent to which many developing countries are simultaneously engaged in basic state building, as well as trying to construct modern political and economic institutions.

The paper is organised as follows. Section 1 examines the historical and political background behind the collapse of the polity and economy in the period 1971-1986. Section 2 explores the rise of Museveni, and the achievements that enabled his political strategy of no-party populism to consolidate. This section also discusses the heterodox and gradual nature of economic reforms and why the policies chosen were appropriate for a polity and economy with fragile institutions and production structures. Section 3 presents Uganda's economic performance in historical and comparative perspective. This section highlights both the achievement in growth and poverty reduction, but also highlights the exceptionally high aid-dependence of the economy and its very low domestic savings capacity. The last three sections examine three specific areas of reform. Section 4 examines the disappointing recovery in traditional cash crops, and its implications for the macreconomy. Section 5 evaluates the experience with tax reform, and why the attempt to institute an autonomous revenue authority failed to sustain initial increases in tax collection capacity. Section 6 examines the Ugandan experience in successfully fighting HIV/AIDS, and highlights the importance of central state leadership and central state action as pivotal to success in this area of health policy.

1. Historical Overview: State Crisis and Breakdown 1971-1986

Four features inherited from the colonial period dominated the policy agenda in post-colonial Uganda. First, it had a relatively prosperous agricultural economy, predominantly in coffee and cotton and based on smallholder farmers. State marketing boards controlled much of the trade in agriculture. Second, these controls were used to exclude Africans from all large-scale commercial and industrial activities. Third, strong traditional kingdoms in the South were given special status in the constitution of 1961. More generally, the two most prominent ethnic/regional cleavages were: the division between the Baganda and the non-Baganda; and the division between the Muslim and poorer North, and the predominantly Christian, more commercialised South. Fourth, there was strong ethnic and sectarian conflict that supported an evenly balanced three party system that threatened the first government of Milton Obote.

The consequences of this political and economic settlement put strains on stability and hindered national integration, and the consolidation of the state. Obote, who led the Uganda People's Party (UPC) ran the state in which traditional kingdoms enjoyed semi-federal status, and where his Northern and mainly Protestant party was challenged by the Catholic-based Democratic Party in and by Kabak Yekka (KY), representing the Baganda, the most powerful of the traditional kingdoms. Obote also faced pressure to

Africanise the civil service and private sector, to reverse exclusionary policies during the colonial period. The policy of systematically favouring ‘northerners’ led to the distribution of state rents on political rather than economic criteria, which compromised the efficiency of parastatals, the bureaucracy, and the agricultural marketing boards.

Opposition to the selective distribution of rents to Obote’s clients in the North generated increasingly violent opposition that eventually led to the rise of Idi Amin in a military coup in 1972. Amin proceeded to confiscate assets of the dominant Asian community, distributing rights and patronage to loyal civil servants and small African traders. Old monopolies and regulatory controls were maintained and there was a systematic redistribution to Amin’s cronies. The outcome, as is well known, was disastrous. Donor support was suspended. Output, exports and taxes declined dramatically, fiscal and balance of payments deficits grew rapidly, and inflation soared. By 1979, Amin was overthrown amidst economic and political disorder: nearly 500,000 Ugandans had died in civil warfare, and there were two major insurgencies by exiled groups.

Amin’s overthrow was followed by seven years of political disorder as different factions vied for control of the state. Disorder in this period owed, not to a predatory state, but to the absence of central state authority of any sort. Eighteen months of unstable provisional governments under Tanzanian supervision were followed by an election in 1980 and the disputed re-election of the UPC, with Obote as President. Most Southerners perceived the elections to be fraudulent, and this consolidated opposition to the new regime. Museveni’s party failed at the election, and his rebel group, which had formed part of the new national army in 1979, were excluded from government. This group formed the National Resistance Army (NRA), which forced a civil war on the country. On starting armed conflict in 1981, Museveni began to adopt the language of a political outsider, with violent verbal attacks on the political establishment. An anti-corruption stance was crucial to the development of his popularity. His calls for an end to corrupt and incompetent governance and the disciplined behaviour displayed by his rebels during the conflict contrasted sharply with the perception of endemic corruption of the Obote regime and the unruly nature of his soldiers. By 1986, the NRA finally reached the capital after five years of civil war, and Museveni has ruled the country ever since. By 1986, nearly 7 percent of the population had been displaced. Per capita income in the period 1971-1986 declined by 40 percent, exports nearly disappeared, capital flight increased significantly (by 1986, nearly 60 percent of Ugandan wealth was held abroad), physical infrastructure was largely destroyed, state revenue collapsed and the degree of informal economic activity increased dramatically. Subsistence activities (excluding livestock and construction) increased from 21 to 36 percent, and the share of manufacturing activity declined by 50 percent.

2.Post-War Reconstruction in Uganda: The Political Economy of Institutional Changes 1986-2003

Introduction

When Museveni took power in 1986, collapse and breakdown, and the threat of continued political disorder provided an opportunity for his government to consolidate power. War not only has costs, but also historically has provided the leverage and opportunity for new leaders to consolidate the state. The role of threat as an enabling force in the consolidation of nation-states has a long historical trajectory (Tilly, 1990). The reconstruction of state and state capacity to govern is not simply or primarily a technical task, but also requires an effective political strategy, and a relatively broad coalition of support and the ability to deliver concrete political and economic achievements.

Since the end of the bush war, Museveni has consolidated power, not through the initiation of full competitive and democratic processes, but through a strategy of populist anti-party (or no party) politics. He set up 'resistance councils' to restore the 'power of the people' by means of local-level direct political participation.[1] Under the NRM regime, Museveni banned the activities of old political parties, has ruled more through plebiscites than elections, and has limited the autonomous power of parliament and the judiciary. The press, however, has remained relatively free and plural, and there is an increasing growth of political contenders returning from exile. The main justification for Museveni's ban on competitive party politics was that he viewed party pluralism as a dangerous embodiment of politically organised ethnic rivalry. Recent studies have indeed suggested that, in less developed economies, with fragmented and under-developed interest groups, elections can increase violence as political contestants appeal to ethnicity as a weapon to appropriate power (Synder, 1990).

As a result of his strategy of 'no party democracy', nearly all reforms were initiated and *controlled from the executive* with relatively few checks and balances on Presidential power. Indeed, Museveni's intolerance for any kind of constraint on his power intensified in 2003-4 (Carbone, 2004). His declared intention to open up political space for multipartism was offset by his efforts to ensure continuation of his personal rule. Given the relative success of the Ugandan economy in the period 1986-2004, this challenges the 'good governance' agenda, which maintains that open, competitive democracy, and transparency are a necessary pre-requisite to improved governance and economic performance.

Factors Contributing to Regime Consolidation and State-Building

The consolidation of Museveni's anti-party populism was based on several factors. The most important was the NRM regime's ability to *restore political stability and order*.

[1] Under the NRM regime, sustaining participatory democracy remained a key political and ideological goal, similar to other populist experiences, including Hugo Chavez in Venezuela, Alberto Fujimori in Peru, and Jerry Rawlings in Ghana.

This helped construct *centralised public authority*, which is essential for effective government, as Hobbes argued long ago. The *restoration of political order* (and external and internal security) became one of the main sources of state legitimacy. Museveni's appeals to the myth of the bush war and to the memory of the 26th of January 1986 revolution provided him with significant mass support for at least a decade after taking power. This does not mean to say that violent conflict disappeared. Two organised groups, the Allied Democratic Front and the Lord's Resistance Army have conducted armed rebellion during Museveni's reign. However, as Collier and Reinikka (2001) suggest, a useful question is to ask why these groups have been unable to seriously challenge state authority despite receiving extensive external support and financing.[2] A second and related achievement was the *successful demilitarisation* of armies of both the former government and the NRM. The large armies of both the NRM and the previous regime represented the danger that their members would either take to looting/predation or join new rebel movements (ibid.). Major demobilisation was thus undertaken gradually; full demobilisation was delayed 8 years, until 1993-4.

The third major achievement was the *post-war economic reconstruction.* Rapid economic growth, poverty reduction and economic diversification were central to increasing regime support and legitimacy. As a result of sustained economic growth, the poverty rate declined from an average of 55% in the period 1987-95 to 44 % in the period 1996-2003 (see Table 1). Large-scale increases in economic aid helped increase public spending in rebuilding the economy's physical infrastructure, with the financing of road reconstruction the most salient factor in helping re-integrate the national economy.

Heterodox Policies, Regime Stability and Economic Growth

Museveni embraced a policy of moderate economic liberalisation. A central component of this strategy was the *gradual* introduction of trade liberalisation.[3] Rodrik (2004) classifies Uganda as a case, not of shock therapy liberalisation, but one of moderate and gradual reform. Non-tariff barriers were removed first in 1991, 6 years after Museveni took power. In 1995, there were still import quotas on beer, beverages, and auto parts. In 1999, all non-tariff barriers were eliminated. It was only in the early 1990's that the structure of trade taxes were switched from export taxation to import taxation, but import tariffs were introduced at a high level. There were few options available for alternative types of taxation, a characteristic of poor economies with weak fiscal institutions. As a

[2] In the second elaboration of this paper, we will examine the political economy underlying the persistence of the war in the North.

[3] During the 1970's export taxation and import quotas were the main tools of trade policy. Although increasing political instability and state collapse were mainly responsible for the collapse in cash crop production, the trade regime provided further disincentives to export as cash crops were heavily taxed. All exports collapsed in the 1970's. For example, tea production fell from a peak of 20,000 tons in the early 1970's to approximately 2,000 tons by the early 1980's, and cotton production fell from a peak of 87,000 tons to 2,000 tons. Coffee production declined by one-third. The decline of other exports meant exports became concentrated with coffee accounting for 90 percent of exports by the early 1980's. The maintenance of overvalued exchange rates, the rationing of foreign exchange and the decline in domestic demand led to a collapse of import-substituting industries.

result, import taxes were required to lead fiscal resource mobilisation in the 1990's. In 1996, ten years after the NRM regime took power, trade taxes still accounted for more than 50 percent of total tax revenues.

The *case against rapid tariff reduction as a means for maintaining and increasing fiscal resources, a key element in state consolidation and state-building, is one of the main lessons in the political economy of the Ugandan post-war reconstruction*. Collier and Reinikka (2001 argue that the substitution of export with import taxes created greater inefficiencies because import taxes were subject to greater dispersion of tax rates since the latter were subject to more tax rates than the former. This is misleading in several respects. First, the replacement of export taxes was important in improving incentives for exports. Second, the substitution of export taxes with import taxes (however much dispersion) was essential for maintaining resource mobilisation, which was central to state-building. Thirdly, a dispersion of import taxes allows the state to provide selective rents (and therefore incentives) for the development of particular sectors. A uniform import rate provided much less scope for industrial and agricultural strategies. Finally, the argument that trade policy created static inefficiencies does not explain why Uganda achieved on one of the fastest growth rates in the developing world over the period 1986-1999.[4]

There has been even more *gradualism in the privatisation process*. Most public enterprises were, in the 1980's, sites of political patronage and were, on the whole inefficient and a drain on fiscal resources. By 1999, the government had divested from 93 of the 150 enterprises the state had owned when Museveni's administration began. While there is some evidence that privatised firms have performed better, there were many shortcomings in the implementation of the privatisation process. These included inadequate regulation, a lack of transparency in many sales, and the failure of the state to recover the proceeds of some divestures. These events forced the government to halt the privatisation process in 1999. Clearly, the regulatory capacity of the state, the degree of competition and the 'hardness of the budget constraint' facing firms, are probably more important factors underlying firm efficiency than ownership *per se* (Chang and Singh, 1992). While claims that there was significant corruption accompanying the privatisation process abound, it must be remembered that the sale of assets to loyal political clientele is a common means to secure political support, buy peace, and is, in poor countries, a means of promoting primitive accumulation. In any event, in production terms, the most valuable state-owned enterprises have remained in the hands of the public sector: these include utilities such as electricity, water and sewage, transport services, and other large public enterprises in manufacturing, construction, agribusiness, tourism, trade, and financial services. The gradualism in the privatisation process allowed the state to maintain control of key sectors and help it control investment patterns in the economy.

[4] By the mid-1990's, there were still five bands of *ad valorem* import tariff rates between 0 and 60 percent, though more than 95 percent of the imported items were between 10 and 30 percent. During the latter half of the 1990's, the NRM regime implemented further trade reforms, which gave Uganda one of the lowest tariff structures in Africa. Since 1999, the maximum tariff was 15 percent on consumer goods, 7 percent on intermediate goods, and zero on capital goods.

As well, gradualism may have helped prevent political instability since shock therapy privatisations can generate significant displacement of labour in the short and medium term, as the experience of some transition economies suggests. Moreover, the weak regulatory capacity of the state means that, it probably makes sense to strengthen the regulatory capacity of the state and reform public enterprises *before* undertaking further privatisation (Stiglitz, 1999). Proponents of rapid privatisation might claim that Uganda would have grown faster had it privatised more rapidly; however, this logic would, again, not explain why Uganda has maintained rapid growth and improved fiscal and macroeconomic management over this period of limited and gradual privatisation.

It is worth noting that the policy of returning confiscated property to former Asian owners was an important and courageous attempt on the part of the NRM regime to signal their commitment to a retrenchment of radical economic policies and to restore and clarify property rights. This initiative, while politically difficult in the face of nationalist demands to increase the share of African property owners, was crucial in improving economic growth as the Ugandan economy benefited from re-incorporating entrepreneurs with proven ability and business skills.[5]

Finally, significant levels of foreign aid were central to increasing public spending. This aid was most important in the reconstruction of physical infrastructure, particularly roads. As well, aid helped increased social spending in health and education, was crucial to the fight against HIV/AIDS and contributed to debt reduction under the HIPC initiative. The extent to which the economy maintains a heavy dependence on aid will be discussed below. In any case, the Ugandan case supports, in part, the argument that there is an important role for resource mobilisation in the context of the poverty trap. The main idea, rediscovered by Sachs (2004), is that the problem for the poorest countries is not necessarily a problem of capacity, but lack of resources to finance growth and finance capacity-building. Good governance and sound economic policies may not be sufficient to escape poverty traps, which implies that aid can contribute to filling the classic constraints to growth in poor contexts, namely, the foreign exchange, savings and fiscal gaps.

3. Uganda's Economic Performance in Historical and Comparative Perspective

In what follows, we present in Tables 1, 2 and 3.an historical and comparative perspective of Uganda's economic performance, which has been essential to consolidating regime support and legitimacy. We also highlight some of the vulnerabilities of this growth process.

[5] In the second elaboration of the paper, we will assess the extent to which Asians returned to claim their properties and the character of new business groups that have become active.

Table 1: Uganda: Macroeconomic Indicators in Historical and Comparative Perspective

	1960-70	1971-86	1987-2003	1987-1995	1996-2003
Uganda					
GDP growth (annual %)		0.6	6.4	6.7	6.1
Sectoral growth (values added)					
Agriculture (annual % growth)		0.6	4.0	4.2	3.7
Industry (annual % growth)		-0.9	10.3	11.3	9.3
Services (annual % growth)		0.6	7.3	7.4	7.1
Economic structure					
Agriculture, value added (% of GDP)	51.5	62.6	46.3	53.5	38.3
Industry, value added (% of GDP)	13.4	8.7	15.6	12.1	19.5
Services, value added (% of GDP)	35.1	28.7	38.1	34.4	42.2
Inflation, consumer prices (annual %)		90.6	37.0	66.2	4.1
Investment rates					
Gross fixed capital formation (% of GDP)	12.6	9.2	16.0	13.4	18.9
Gross domestic savings (% of GDP)	15.0	6.5	4.3	1.8	7.1
Poverty Data					
Poverty headcount, national (% of population)			49.5	55.0	44.0
Sub-Saharan Africa	**1960-70**	**1971-86**	**1987-2003**	**1987-1995**	**1996-2003**
GDP growth (annual %)	5.3	2.7	2.5	1.8	3.3
Sectoral growth (value added)					
Agriculture, (annual % growth)	3.8	1.9	2.5	1.8	3.4
Industry, (annual % growth)	7.7	2.7	1.8	1.0	2.7
Services, (annual % growth)	5.2	3.5	2.5	1.9	3.3
Economic structure					
Agriculture, value added (% of GDP)	24.5	19.3	17.8	18.0	17.7
Industry, value added (% of GDP)	28.9	33.4	31.4	33.4	29.3
Services, etc., value added (% of GDP)	46.8	47.3	50.8	48.7	53.1
Investment rates					
Gross fixed capital formation (% of GDP)	22.0	22.7	17.3	17.4	17.2
Gross domestic savings (% of GDP)	19.4	22.2	17.2	17.7	16.7

Source: World Development Indicators

Consider Table 1. In historical and comparative perspective, the Ugandan economy has achieved remarkably rapid rates of economic growth. Annual average growth rates increased from 0.6 percent per year in the period 1971-1986, to over 6.5 percent in the period 1987-2003. Of the post-war economies in Africa, only Mozambique has maintained this level of growth. This growth rate compares favourably with the sub-Saharan African average of 3.3 percent over this period. Rapid economic growth is one of the principal reasons that Uganda is on target to meet its Millennium Development Goals. Sectoral growth in industry has been impressive in historical and comparative terms. Annual average industrial growth rates increased from -0.9 percent per year in the period 1971-1986, to over 10 percent in the period 1987-2003. This growth rate compares favourably with the sub-Saharan African average of 1.8 percent over this period. The story in services is similar. However, the recovery in agricultural growth is a bit less impressive. Annual average agricultural growth rates increased from 0.6 percent per year in the period 1971-1986, to over 4 percent in the period 1987-2003. However, the rate of agricultural growth has slowed during the NRM regime. In the period 1987-1995, average annual agricultural growth averaged 4.2 percent, but declined to 3.7 percent in the period 1996-2003. In comparative terms, Ugandan agriculture grew much faster than the average annual agricultural growth in the region (2.5 percent) for the period 1987-2003. However, in the period 1996-2003, Ugandan agricultural growth had declined to a rate just above the sub-Saharan African average (3.4 percent). Since Uganda is still one of the poorest and most rural economies in sub-Saharan Africa, this relative decline is a concern (and will be the subject of the next section).

The NRM regime has achieved an important reduction in inflation, the product of prudent macroeconomic management (Nkusu, 2004) and crucial to the consolidation of the regime's legitimacy. Inflation declined from an annual average of 90.6 percent in the period 1971-1986 to 66.4 percent in the period 1986-1995. However, in the period 1996-2003 major progress was achieved as inflation declined to 4.1 percent. Interestingly, relatively high inflation in the period 1987-1995 did not prevent the achievement of rapid rates of economic growth.

The contribution of investment and savings presents a less impressive picture. In historical terms, annual average investment rates as a percentage of GDP increased from 9.2 percent per year in the period 1971-1986, to over 16.0 percent in the period 1987-2003. Within the latter period, investment rates increased from 13.4 percent in the period 1987-1995 to 18.9 percent over the period 1996-2003. Again, the rapid rates of economic growth with relatively low investment rates in the period 1987-1995 indicates that igniting growth in the context of large static inefficiencies and a low base (as a result of civil war) does not necessarily require large investment rates. This is because most growth in poor stagnant economies will come from labour-intensive, small-scale activities. In comparative terms, Uganda's investment rate was roughly similar to the sub-Saharan African average (17.3 percent) over the period 1987-2003.

The story of gross domestic savings rates is of more concern. In historical average annual savings rates in Uganda declined from 6.5 percent in the period 1971-1986 to 4.4 percent in the period 1987-2003. Within the latter period, savings rates plummeted to 1.8 percent in the period 1987-1995 (which was well below the sub-Saharan African average of 17.7 percent for this period). Ugandan savings rates did increase dramatically to 7.1 percent in the latter period, 1996-2003 (but were still far below the sub-Saharan African average of 17.2 percent for this period).

The very low domestic savings rates are characteristic of very poor economies, such as Uganda and point to the important role aid has played in filling the savings gap. Consider Table 2.

Table 2. The Contribution of Aid in Uganda: Comparative Perspective

Uganda	**1960-70**	**1971-86**	**1987-2003**	**1987-1995**	**1996-2003**
Aid (% of central government expenditures)		22.7	65.4		65.4
Aid (% of GNI)	3.3	4.3	13.7	**15.0**	**12.0**
Aid (% of gross capital formation)	28.0	50.7	86.7	**104.2**	**64.2**
Sub-Saharan Africa					
Aid (% of central government expenditures)					
Aid (% of GNI)	2.4	3.1	5.6	**6.2**	**4.9**
Aid (% of gross capital formation)	15.3	15.1	30.8	**35.0**	**25.5**

Source: World Development Indicators

In historical terms, aid as a percentage of national government expenditure has increased in Uganda from 22.7 percent in the period 1971-1986 to 65.4 percent in the period 1996-2003. As a percentage of gross national income, aid has increased significantly in Uganda from 4.3 percent in the period 1971-1986 to 13.7 percent in the period 1987-2003 though there is a slight decline over this period. In comparative perspective, Uganda received more than double the average aid as a percentage of gross national income sub-Saharan Africa received over this period (5.6 percent). The contribution of aid to gross fixed capital investment was nearly three times in Uganda compared to the sub-Saharan African average over the period 1987-2003. In the period 1987-1995, aid was greater than gross fixed capital formation, but declined to a still high rate contributing 64.2 percent of investment over the period 1996-2003. These figures underscore the high degree of aid dependence underlying the Ugandan economic recovery, which supports the poverty trap argument and highlights the fragility of the recovery process.

The contribution of aid in overcoming the foreign exchange constraint is also evident when one considers the international trade statistics of Uganda, as seen in Table 3.

Table 3. Uganda: International Trade in Comparative Perspective

Uganda	**1960-70**	**1971-86**	**1987-2003**	**1987-1995**	**1996-2003**
Exports of goods and services (annual % growth)		0.6	11.2	8.8	13.9
Exports of goods and services (% of GDP)	25.4	14.0	10.0	8.3	**11.9**
External balance on goods and services (% of GDP)	2.8	-2.1	-11.9	-11.8	**-12.0**
Food exports (% of merchandise exports)		89.9	78.8	91.8	75.1
Manufactures exports (% of merchandise exports)		0.4	7.4	3.4	8.5
Current account balance (% of GDP)		-1.3	-4.9	-4.3	**-5.6**
Sub-Saharan Africa					
Exports of goods and services (annual % growth)	5.6	1.8	3.6	3.6	3.5
Exports of goods and services (% of GDP)	24.6	26.8	28.5	26.9	**30.3**
External balance on goods and services (% of GDP)	0.4	-1.1	-0.5	0.0	**-0.9**
Food exports (% of merchandise exports)		23.9	19.3	21.4	18.9
Manufactures exports (% of merchandise exports)		16.9	34.2	33.9	34.3

Source: World Development Indicators

At first glance, Uganda's export performance compares rather favourably. Exports have grown on average 11.2 percent per year over the period 1987-2003, with that average increasing to 13.9 percent over the period 1996-2003. Sub-Saharan African exports grew, on average, only 3.5 percent over the period 1996-2003. However, it is important to remember that exports have grown in Uganda from a very low base. A further examination reveals important vulnerabilities in the external sector. First, the export sector is still relatively small. In the period 1996-2003, exports contributed 11.9 percent of GDP compared with the sub-Saharan African average of 30.3 percent (of course, this average includes mineral exports, which exaggerates the differences). Second, the external balance over the period 1996-2003 was minus 12.0 percent of GDP compared with the sub-Saharan African average of only minus 0.9 percent of GDP. Thirdly, the current account deficit in Uganda has been rising over the period 1987-2003, and averaged minus 5.6 percent of GDP over the period 1996-2003. These figures once again underscore the continued dependence of the Ugandan economy on aid to cover these trade deficits. It also supports, once again, the argument that aid can help economies overcome poverty traps by preventing current account deficits from slowing imports needed for investment.

Summary

In summary, the consolidation of the Museveni regime owes to the restoration of state authority, successful demilitarisation and the achievement of rapid rates of economic growth. International aid has been central in overcoming savings short-falls, and foreign exchange constraints to growth. Regime consolidation and state-building, central to post-war reconstruction, have not occurred through the installation of competitive elections but through populist anti-party political strategy with substantial power presiding in the executive.

The growth turnaround in Uganda has not been the result of the state initiating and executing a big push liberalisation and governance reforms. Rather growth has been resumed through a more gradual liberalisation and heterodox policies, and through limited reforms in terms of governance and regulation. The current approach to reform as espoused in the 'good governance' agenda (or what Rodrik, 2004 calls the Augmented Washington Consensus) suggests that economies should reform '*as much as they can, whenever they can, and as quickly as they can*.' There is no attempt to prioritise areas for reform, that is, evaluate what might be the most binding constraints to growth. Indeed, comparative evidence suggests that growth turnarounds have occurred not as a result of wholesale changes on all fronts. In reality, growth spurts have been initiated with very few major reforms, and economic liberalisation has not been central to the experience of most path changes in growth rates (ibid.). Moreover, the *institutional forms* that have accompanied growth turnaround have varied widely; for example China, India, Chile and Vietnam, along with Uganda have all experienced growth accelerations with widely different and heterodox sets of economic and political reforms. What also needs to be kept in view is that *initiating* reforms from a low base of economic activity is not the same as *sustaining* growth and growth-enhancing institutional reform. The second part of the paper considers three areas of reform: structural adjustment, taxation, and health care (particularly HIV/AIDS treatment) and evaluates the political economy of institutional reform in each case.

4. Structural Adjustment and Traditional Cash Crop Exports in Uganda (to be elaborated further in final draft)

While the export growth performance of the Ugandan economy has been relatively successful, trade deficits continue to grow significantly. One of the reasons for this has been the disappointing recovery of many of Uganda's traditional cash crop exports—namely, coffee, cotton, and sugar. Tobacco and tea has fared better. As a predominantly rural economy, the revival of traditional cash crops exports is vital to contributing to foreign exchange earnings and providing rural employment, which is essential if still high levels of poverty and underemployment are to be reduced. While the growth in food crops has been impressive (Nkusu, 2004), the disappointing performance of cash crops has contributed to the fragility in the balance of payments and made Uganda more dependent on aid than it otherwise would have been.

In order to assess the success of economic recovery in cash crops, it is necessary to establish a benchmark. The rapid growth in exports since 1986 is misleading since it occurred from a very low base, which was the result of export collapses during the period of political instability and civil war in the period 1971-1986. A more appropriate criterion for evaluating cash crop export recovery would be to compare export performance recently relative to a position status quo ante to the political and economic implosion of the Ugandan economy. Consider Table 4.

Table 4. Uganda: Export Performance of Principal Cash Crops

	Year peak exports	Peak Exports ('000 tons)	2000-2003 ('000 tons)	1986	1996 ($ value)	2000-2003
Coffee	1973	**212**	**170**	394	396	98
Cotton	1970	**86**	**16**	5	15.3	14.2
Tobacco	1972	**5**	**20**	0	7.4	39.5
Tea	1972	**23**	**31**	1	17	33.5
Sugar	1972	**47**	**0**	3	0	0

Source: Belshaw et al (1999); Uganda Bureau of Statistics, External Trade Bulletin

When comparing traditional cash crop exports with their peak export years in the early 1970's, the recovery of this sector is much less impressive than the export growth indicators suggest. In the coffee sector, the country's leading export, the volume of exports in the period 2000-2003 was 170 thousand tons, well below the peak year export volume of 212 thousand tons. In export value terms, coffee export revenues in the period 2000-3 are well below the levels reached in 1986 and 1996, though this has been due to declines in world coffee prices. In the case of cotton, the quantity of exports in the period 2000-2003 averaged 16 thousand tons, which is less than a quarter of the peak export volume of 86 thousand tons. Belshaw et al (1999) argue that vested interests in the coffee and cotton marketing boards prevented institutional reform and the introduction of greater competition. Moreover, they argue that both donors and government officials did not place much of a priority in these sectors; favouring instead food crop diversification and industrial promotion. The failure of the cotton sector to revive has important regional income distribution and poverty consequences. The main cotton growing areas are in Northern and Eastern Uganda. These are precisely the regions were rural poverty is greatest: 85 percent of the rural population in the North, and 68 percent in the East were living below the poverty line in the mide-1990's compared with poverty rates of 51% and 46% in Central and Western Uganda respectively (Belshaw et al, 1999: 679).[6] The collapse of sugar exports has been even more severe. Tobacco has had the most impressive recovery as quantum exports in 2000-2003 increased fourfold over 1970 peak levels. Tobacco is grown by small holders under contract with British American Tobacco (BAT). The model of promoting small-scale cash crop farming under contract with a large multinational may provide the opportunity to widen asset ownership, provide rural employment and contribute to exports.

[6] Ongoing rebellion and political violence in the Northern region has certainly contributed to poor cotton conditions.

The failure of the traditional cash crop sector has been, in part, compensated by diversification of exports, as indicated in Table 5:

|Table 5. Uganda: Composition of Exports

	2001	2002	2003
Traditional Cash Crops	38.4	39.1	37.3
Non-traditional Products	61.6	60.9	62.7

Note: main non-traditional exports: fish products, flowers, gold, petroleum products

However, there has been great attention paid to speculative agricultural diversification at the expense of focusing on the recovery of lost market share of established cash crop sectors where there is potentially considerable capacity and skills in production processing, distribution and marketing. Aid dependency is further heightened by the failure of this sector to contribute more to foreign exchange earnings. In political economy terms, there seems to be no agency with an immediate interest in changing this situation. Ugandan beneficiaries of aid inflows seem to have little or no incentive to shift resources to smallholder farmers in the cash crop sectors. In the case of cotton, the fact that much production takes place in the North, which is a region where there is considerable rebellion, may explain the political logic behind the persistence of the regime's neglect in this important policy area.

5. The Political Economy of Taxation in Uganda

Taxation and resource mobilisation lie at the heart of state formation and capability. Tax also provides one of the principal lenses in measuring state capacity, power and political settlements in a society. In the wake of fiscal crises of the state in sub-Saharan Africa and Latin America, designing tax systems that can provide incentives for growth, can meet distributional demands, can increase revenue collection and is central to state viability and effectiveness (Toye, 2000).

Fiscal crises confronting many LDC's in Latin America and sub-Saharan Africa have necessitated bringing fiscal reform to the centre of macroeconomic stabilisation processes (Moore et. al, 2004). However, the tax component of the Washington Consensus follows along the lines of the capacity approach. The main policy proposals have been to simplify and broaden tax bases, lower income and corporate tax rates (that is, make taxes more pro-business), promote reduction in trade tax rates through trade liberalisation, and emphasize the widening and simplification of value-added taxes (VAT). Importantly, the latter is promoted on the grounds not only that it is less distortionary, but also that it is *administratively and politically easier* to implement than income and property taxes. Because property and, particularly, income taxes are generally the most progressive taxes, equity concerns have been downplayed, which may have important implications for political stability in countries with very unequal levels of asset and income distribution, where political regimes enjoy waning legitimacy.

In terms of institutional design, international financial institutions and aid donors have developed the proposition that, in weak states, revenue collection authorities are more effective when they operate *autonomously* from the state (and particularly the finance ministry), as a commercial entity at arms length from the government rather than as a department within the government administration (see Taliciero, 2004). Hence the promotion of the so-called autonomous revenue agencies (ARA's). This line of thinking follows much the line of New Public Management, which stresses that agencies be run on business principles, where directors can circumvent the institutional obstacles of weak public sectors, which include multiple layers of principles and agents, cumbersome rules and regulations, low pay, antagonistic unions and so on (Therkilsden, 2003: 2). According to this argument, autonomy protects revenue authorities from political interference. In short, the creation of parallel agencies is favoured over the restructuring of existing tax institutions.

While there is some evidence in Africa and Latin America that autonomous revenue authorities may have been instrumental in initiating reforms, it is less clear that such arrangements are sustainable. Such a technical approach to tax policy abstracts from politics in at least three ways. Firstly, the reasons why such reforms were politically feasible in the first place are not addressed. Secondly, there is little analysis of why such autonomy is acceptable to relevant political coalitions over time. Thirdly, there is no accepted definition of autonomy. Since tax policy, which is the domain of finance ministries, cannot practically be divorced from tax collection, which is the domain of newly created ARA's, it is not ultimately possible for the latter to function in purely autonomous ways. In effect, autonomy can never be complete where there are inter-dependencies among agencies and thus is always a contested notion (ibid.).

As with many tax reforms, fiscal and economic crisis was the catalyst for reform. The previous tax administration was riddled with inefficiency linked to the high levels of clientelist pressures and the power of interest groups to gain exemptions in all area of tax. The tax reform was designed by a select group of national experts who had little knowledge of tax issues. They were assisted by international experts with little knowledge of local politics. Uganda's experience with ARA's follows a similar pattern to Peru's (on the Peruvian case, see Di John, 2005).[7] Similar to Fujimori in Peru, Museveni took power on an anti-corruption, anti political party platform in the midst of a collapsing state and economic decline during Idi Amin's rule. In 1991, the state, with the financial support of Britain, set up the Uganda Revenue Authority (URA). While internal staff relations and hiring followed New Public Management principles, salaries were increased by 8 times the public sector average; poorly performing staff were either fired or moved to other ministries. The URA's autonomy vis-à-vis donors and the ministry of finance, however, remained influential in determining tax revenue targets. The initial results were encouraging as tax collection as a percentage of GDP increased from 7.0%

[7] Discussion of the Ugandan case draws substantially on Therkildsen, 2003.

in 1991 to 12% in 1999. Thereafter, cases of corruption and a worsening of tax collection occurred. By 2001, tax collection declined to 10.7% of GDP.[8]

While the internal autonomy of the board of the URA vis-à-vis its employees may have increased, external autonomy was limited. Relations with the finance ministry soured after the first three years as the URA failed to meet target objectives. The latter claimed the targets set were unrealistic.

Likewise, relations with the President, initially very strong, soured. There were at least two sources of this tension. First, the introduction of semi-military operations to prevent smuggling and tax evasion became unpopular among not only large taxpayers but also the ordinary public, who viewed these measures as unduly harsh. In 1996, Museveni pledged to drop these units and used the URA as a scapegoat. Second, the introduction of VAT, which had the support of Museveni initially, proved very unpopular in a country where tax payments were notoriously low. Tax revolts over the introduction of VAT induced Museveni to make the URA a scapegoat in 1996.

The Ugandan experience, along with other instances of populist rule (such as Peru under Fujimori) provide several important lessons for tax reform. Firstly, the role of macroeconomic and particularly fiscal and inflationary crises has provided opportunities for leaders to gain leverage over the reform process. This is part of the wider story on the role of threat, war and crisis as a constitutive element in the construction of tax states (Schumpeter, 1954; Tilly, 1990). Secondly, centralised public authority and executive support is essential for tax reform to be undertaken. Thirdly, public relations and communications are as important as coercive capacity in improving tax collection.[9] Fourthly, the creation of a (semi-) autonomous revenue authority paradoxically can increase the political attention it receives. If presidential support sours, then the ARA can become a political scapegoat. The political strategy of anti-party politics makes the revenue authority vulnerable to shifting policies and coalitional and/or electoral calculations of the President. It seems that if democracy does not work without strong political party support, then the same story emerges in the failure of the URA to sustain tax reforms.

[8] By the late 1990's, Uganda's tax take of 11 percent of GDP remained well below the African average of 20 percent of GDP. Neighbouring Kenya had, of over 20 percent of GDP, while Tanzania's were 15 percent of GDP during this period (Kayizzi-Mugerwa, 2002: 2).

[9] The perceived legitimacy of a tax by the majority of the tax payers is important to revenue collection. Levi (1988) argues that increases in tax capacity are intimately related to the voluntary compliance of large sections of the population. That an important source of the legitimacy of central authority depends on convergent expectations implies its *fragile* nature (ibid) hence the formidable task tax collection presents. With respect to institutions, North (1981: 53) notes that: "The costs of maintenance of an existing order are inversely related to the perceived legitimacy of the existing system. To the extent that the participants perceive that the system is fair, the costs of enforcing the rules and property rights are enormously reduced by the simple fact that the individuals will not disobey the rules or violate property rights even when a private cost/benefit calculus would make such a decision worthwhile."

6. Institutionalising an Emergency Response: HIV/AIDS and Governance in Uganda (this section to be expanded in the final draft)

The Ugandan case represents a relative success story in tackling the emergency crisis posed by the spread of HIV/AIDS.[10] In Uganda, national prevalence peaked at 15% in 1991. The NRM regime responded in a relatively rapid and centralized manner, which helped bring down prevalence to between 6.1 and 6.5% by 2002 (see Putzel, 2003 for discussion of other main achievements). While many discussions of HIV/AIDS have focused on the need for 'political commitment' at the highest levels of government, this does not tell us much about why and how such commitment emerges.

The Ugandan experience highlights four central aspects of leadership that proved to be important First, an *incentive structure emerged in which the leader, Museveni, had little to lose and everything to gain from engaging the fight with HIV/AIDS*. In contrast to many African countries that tried to deny the gravity of the crisis, Museveni and his health authorities quickly acknowledged that rapid action was required. Two factors probably contributed to the President's swift response. Firstly, Museveni did not have to face the same dilemmas as countries like Kenya since Uganda had been devastated by war, there was no significant tourism and investors had long stayed away from the unstable Ugandan economy. In addition, the international community, already a enamored by Museveni's willingness to embrace major economic reforms, made it clear that foreign funding to fight HIV/AIDS would be provided.

Second, there was a *willingness to act on the basis of medical and scientific evidence*. Museveni gave support to crusading doctors and ordered the medical bureaucracy to make HIV/AIDS a priority. The importance of making decisions on scientific evidence is underlined by the apparent dilemma that faces leaders who can see much more immediate and widespread causes of death in diseases such as malaria and tuberculosis. Especially in the early stages of an epidemic, leaders will only be convinced to invest resources and attention to HIV if they understand the epidemiological characteristics of of the virus (its long period of latency, the way it can spread through the population and its incurability). Waiting to take action will allow the disease to reach epidemic proportions, which happened under the previous Obote regime. Moreover, the medical profession needs to play a central role in establishing surveillance systems necessary to monitor the disease and progress in fighting it, to establish clean hygienic processes in blood supplies and the administration of medicine, and to provide a support to other sectors as they begin to get involved in treatment and care.

Third, *fighting HIV/AIDS became a test of political legitimacy* in the sense that it became illegitimate for anyone to occupy a position in government without fully committing to fight against AIDS. The impact of high-level political commitment to fight HIV/AIDS and the all-out educational campaigns launched created a situation where the epidemic was put beyond partisan politics.

[10] This section draws extensively on Putzel (2003).

Fourth, *leaders of the central state were pivotal to mobilization of social organizations*. Leaders of the central state were the first to rally the nation behind the fight against HIV/AIDS. They have the knowledge and the connections with the international community, but most importantly, the authority to convince a diversity of social groups to organize around HIV/AIDS. The centralist authority of the National Resistance Movement, and the military organization on which it is based, made quick dissemination of the message about HIV/AIDS to every village possible. It was Museveni's military organization that in 1988 implemented the first national sero-survey to take place in Africa.[11] While a multi-sectoral approach and the involvement of a diversity of social organizations and associations were essential to the campaign in Uganda, the involvement and coordination of these actors were facilitated through strong central leadership. Of course, in the absence of strong central leadership, there is no choice but to look to the organizations in society to take up the fight against HIV/AIDS. However, just as NGO's and community based organizations can never provide for the military security of a country, neither can they provide for security from an epidemic like HIV/AIDS. If central leadership is lacking, it is highly unlikely that sustained progress can be made to protect against the virus.[12]

Multi-Sectoral Approaches and 'mainstreaming' HIV/AIDS

The epidemiological and social character of the HIV/AIDS epidemic has meant that biomedical responses are insufficient in any attempt to bring it under control and deal with the short, medium, and long-term impact on social, economic and political systems. The Ugandan government developed what is widely referred to as a 'multisectoral approach', which involved both the cross ministerial participation of all branches of government and partnership between government agencies, religious organizations, the associational sector including NGO's, international donors and increasingly, the private sector. In the international donor community, there has been increasing emphasis on finding ways to 'mainstream' HIV/AIDS across all developing country activities, to involve non-government actors in campaigns, and to get resources to fight HIV/AIDS into communities. The two most important instruments of multilateral assistance, the World Bank's Multi-Country AIDS Programme (MAP) and the Global Fund to fight AIDS, Malaria, and Tuberculosis (GFAMT), have insisted on recipient countries following a 'multisectoral approach'. The Ugandan and other experiences suggest that there are several problems with the reigning template for managing HIV/AIDS campaigns. These include:

[11] The crucial role of centralist leadership in getting an all-out campaign against HIV/AIDS underway has also been demonstrated in Cuba and, in preliminary accounts from those working on the ground, in Eritrea, where despite criticisms from international actors about the lack of deference to NGO's and civil society, rapid progress was made in fighting the epidemic.

[12] One of the most precarious aspects of the many successes Uganda has achieved since 1986 not only in fighting HIV/AIDS but in other aspects of development is the overwhelming reliance on the President on the one hand, and foreign donors on the other. So far, the NRM has been unable to develop into a coherent political party organization, a situation which suits Museveni's ideology and fits with his desire to rule with few checks and balances.

a) A 'multisectoral approach' is taken to mean *both* 'mainstreaming' HIV/AIDS in all government activity *and* full involvement of non-government actors in planning and implementing HIV/AIDS campaigns. These are two distinct goals and do not necessarily go together.

b) There is in the template an implicit assessment of the inability of organizations *within* the state, or public authority, to implement HIV/AIDS programmes and an implicit, virtually ideological belief, that non-government actors will be able to do better.

c) In reaction to over-reliance on the health sector in the past, the model tended to secondarise medical expertise, by treating ministries of health as one among many co-equal (bureaucratic and incompetent) government ministries and the medical dimension as just one of many co-equal aspects of what must be a multi-dimensional effort.

d) Most importantly, as with the example of autonomous revenue authorities, the establishment of a supra-ministerial body effectively ends up in inadequate attempts to *reinvent* government and replace what is essentially a *political challenge* of prioritizing HIV/AIDS in government with an *organizational fix*.

In Uganda, the national AIDS commission, Uganda AIDS Commission (UAC), experienced several problems. The enabling legislation about its mandate and its relation with line ministries was unclear. The ability of the UAC to obtain funds directly from donors created confusion and infighting between government agencies over funds.By making all ministries co-equal members of the UAC, the Ministry of Health was somewhat marginalized, despite the fact that all other ministries called on it for support of their own HIV/AIDS programmes. As a result, significant overlapping and duplication of effort ensued. While the Ugandan experience testifies to the importance of developing a multisectoral approach to fighting HIV/AIDS, it does not provide evidence that the organizational template imposed by the Bank and the Global Fund is appropriate.

The single most important lesson from Uganda is the importance of central *state* leadership in the fight against HIV/AIDS. In essence, what the donor community has tried to emulate from the Ugandan experience was the single-minded effort of Presidents Museveni to make the epidemic a central concern across the government and to involve society fully in the effort. However, this was achieved *not* through the establishment of a 'supranational' organization, but by mobilizing the NRM's political organization and *existing* government departments.

Finally, it is important to remember that there is a tension between the principles of democracy and the respect for individual rights on the one hand, and the imperatives of securing public health on the other. For instance, the right to public health may conflict with the right to oppose compulsory testing. In the Ugandan case, the absence of effective political competition allowed Museveni to spearhead a nationwide campaign overnight without needing to be deferential to opponents of the strategy. In Africa, Botswana, the country often cited in the literature as having among the most effective governance, including transparent and competitive electoral competition (Acemoglu et al, 2001) has among the highest prevalence rates in the world. This does not mean that democracy is an obstacle to an effective fight against HIV/AIDS. If anything, coercive measures to control an epidemic are likely to be more effective if they are legitimated through the voting process. Rather the comparison with Botswana suggests that state capacity is not uniform within polities, nor is a generally more capable state necessarily more capable than a less successful state in all areas. Only through an examination of the political settlements and strategies surrounding particular policy areas can we understand what reforms are likely to work in historically specific contexts.

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