As sustainable employment is one of the best routes out of poverty, assistance in designing and implementing strategies and programmes for job creation can contribute to the objective of poverty alleviation in situations of low income and high unemployment and underemployment.

The challenge of poverty reduction is made tougher by crises of some form or the other (e.g., those resulting from economic turmoil, armed conflicts or natural calamities) which tend to aggravate the poverty situation. Special attention, therefore, needs to be devoted to countries emerging from crises of various types.

The Recovery and Reconstruction Department (EMP/RECON) of the International Labour Office has the dual function of (i) responding to the reconstruction and rehabilitation needs in various post-crisis situations, and (ii) contributing to an employment-focussed development agenda by providing direct assistance in the creation of poverty-reducing jobs. The first function is undertaken through the InFocus Programme on Crisis Response and Reconstruction which assists in formulating and implementing employment-focussed reconstruction programmes. The second function is undertaken by the Employment Intensive Investment Branch of the Department which demonstrates how employment-intensive investment in infrastructure can contribute to the objective of job creation for poverty reduction.

The work of the Department also includes analytical and policy-oriented research on employment and poverty reduction.

The main results of work in progress will be published in the Issues in Employment and Poverty Discussion Paper series. These papers disseminate the analysis and empirical information generated by ILO staff, at the Headquarters or in the field, and consultants working on development issues and are circulated in order to stimulate discussion and to elicit comments.

Issues in Employment and Poverty

Discussion Paper

16

ECONOMIC GROWTH, EMPLOYMENT, POVERTY AND PRO-POOR POLICIES IN UGANDA

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April 2004

ISBN

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ACRONYMS

ERP	Economy Recovery Programme
SAP	Structural Adjustment Programme
PEAP	Poverty Eradication Action Plan
PMA	Plan for Modernization of Agriculture
MTEP	Medium Term Expenditure Framework
UBOS	Uganda Bureau of Statistics
UDHS	Uganda Demographic and Health Survey
UPPAP	Uganda Participatory Poverty Assessment Programme
NSDS	National Service Delivery Survey
GDP	Gross Domestic Product
ELP	Economic Liberalisation and Privatisation
NRM/A	National Resistance Movement/ Army
IMF	International Monetary Fund
PIP	Public Investment Plan
PAF	Poverty Action Fund
HIPC	Highly Indebted Poor Countries
MFIs	Micro Financing Institutions
UNHS	Uganda National Household Survey
UNDP	United Nations Development Programme
GOU	Government of Uganda
UPE	Universal Primary Education
UPPP	Uganda Participatory Poverty Process
BAT	British American Tobacco

Preface

The experience of countries that succeeded in reducing poverty significantly indicates the importance of high rates of economic growth in achieving this. High growth, however, is not a sufficient condition for poverty reduction; the pattern and sources of growth as well as the manner in which its benefits are distributed are equally important from the point of view of achieving the goal of poverty reduction. And employment plays a key role in that context. Indeed, countries, which attained high rates of employment growth alongside high rates of economic growth, are also the ones who succeeded in reducing poverty significantly.

In view of the importance of employment as a route out of poverty, the ILO and SIDA agreed to collaborate in undertaking a series of studies to examine the linkage between economic growth, employment and poverty reduction. The country level studies covered Bangladesh, Bolivia, Ethiopia, India, Indonesia, Uganda and Vietnam. The main purpose of these studies was to contribute to an understanding of the linkage mentioned above, and to the identification of policies that could be used to engender higher rates of economic growth and employment generation, and thus achieve a faster reduction in poverty.

The present paper forms part of the outputs of the ILO-SIDA collaborative project mentioned above. While funding provided by SIDA for the studies carried out under this project is thankfully acknowledged, mention should be made of Dr. Per Ronnas, Chief Economist, SIDA, who played a key role in initiating this collaborative project. I would like to thank him for his personal interest, encouragement and technical support.

The objective of the present paper is to explore issues and dynamics in growth, employment, poverty and pro-poor policies in Uganda since the 1980s. Once the civil war ended and order was restored, Uganda was able to achieve impressive rates of economic growth and poverty reduction. In particular, the 1990s was associated with a high rate of economic growth leading to rapid poverty reduction.

In order to study the extent to which economic growth has resulted in poverty reduction, trends and patterns in economic growth between 1987 and 2002 are examined and key features of structural change for 2 sub-periods, 1992 to 1997 and 1998 to 2002 are highlighted. The paper illustrates how the observed fall in poverty occurred at a time when the benefits of stable conditions were unfolding, i.e. the return to law and order, economic reforms and favourable world markets for export commodities (in particular coffee). However from 1997 there was a marked change whereby GDP growth decreased, and after 2000, poverty and inequality increased. The authors attribute these recent trends to limitations that have remained from the 1990s, namely the lack of structural change in the economy, especially in employment; reforms and the initial effects of economic liberalisation wearing off; and international prices for major export commodities declining.

The paper analyses available evidence on poverty and inequality, looking at both income related measures and other indicators of poverty. Data presented in the paper show that benefits of economic growth have been broad based with overall income poverty declining from 56% in 1992 to 35% in 2000. But the trend of poverty reduction got reversed after 2000. Another key concern arising from the present study relates to the fact that not all regions and socio-economic categories gained equally from the benefits of growth. Between 1999-2000 and 2001-2003 the poverty proportion rose in Central, Eastern and Western Uganda and fell marginally in North Uganda, which has the highest poverty incidence. Income inequality increased during 1998-2003 (Gini coefficient rose from 34.7 to 42.8) when GDP growth had slowed.

The authors use employment elasticity estimations as well as data on the sectoral composition of employment to explore links between growth, employment expansion and poverty reduction. Findings show that the 1992 to 1997 period saw economic growth accompanied by some labour absorption, with the agricultural sector managing to absorb much of the increase in numbers entering the labour market, whereas industry tended to show low employment elasticity, creating little employment opportunities. The authors argue that despite successful economic growth during the early 90's, the overall structure of the economy did not change significantly and the employment creating capacity of the economy remained in the agricultural sector, which was affected by the end in the coffee boom in the late 90s.

An econometric exercise undertaken by using the Uganda National Household Survey data of 1999/2000 shows the importance of a number of demographic and economic variables, e.g. age, gender, income, education, occupation and location, in explaining poverty. In rural areas, female-headed households are more likely to be poor than their male counterparts. A more diversified structure of income sources for a household, or the number of educated males reduces the likelihood of a household being poor. In urban areas, educated female-headed households are less likely to be poor. Furthermore, data on poverty by employment sector of the head of household show that food crop producing households were often poor in 1992-93 and may continue to be poor in 1999-2000 and 2002-03.

The final section of the paper summarises the main findings and focuses on the policy implications of Uganda's experience. The authors highlight a number of measures that could be employed to combat volatility in the world market for agricultural commodities. These concern promoting non-agricultural wage employment activities, investing in sectors which use labour and local resources intensively, and developing new systems of social protection, especially for the poor in the North. Suggested measures include increasing access of the poor to basic social services, land and credit, and strengthening the human resource base by promoting education and skills countrywide.

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Director
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April 2004

I. Introduction

1.1 Background

Uganda is a land-locked East African country bordered by Kenya in the east, Rwanda in the south west, Tanzania in the south, Sudan in the north, and the Democratic Republic of Congo in the west. She is a former British Protectorate, which became independent on 9th Oct 1962.

Lying astride the Equator, the country is well endowed with natural resources, with some 18 million hectares of arable land although less than one third is under cultivation. Uganda is an agro-based country; with over 90 percent of the population deriving its livelihood from agriculture and related activities and contributing about 40 percent to the GDP.

Uganda was characterised by political instability between mid-1960s to mid-1980s. Economic mismanagement, civil strife and armed conflicts left most of the county's infrastructure in a sorry state. This follows a military coup in 1971. The military government's 8 years rule was characterised by brutal murders, mass exodus of the expatriates and Asians who had previous dominated Uganda's manufacturing and business sectors of economy, and resulted in a general breakdown of infrastructure. Between 1979 and 1986, Uganda went through five political regimes. This had far reaching social, political and economic implications that translated into unemployment levels, poverty and overall economic decline.

In 1986, the National Resistance Movement (NRM) government took over the government. Since then, there has been remarkable changes in economic developments and political stability although some insecurity and insurgency still persist in some Northern and Eastern parts of the country where people are living in "protected camps". Infrastructure facilities were largely been run down in the conflict areas; roads were in disrepair, agricultural farms had been abandoned; and schools and health units closed. It is probable that poverty and unemployment was high in the country. However, the NRM government forged peace initiatives in the war torn regions, alongside attempts to restore peace in a bid to promote economic growth and eradicate poverty and unemployment.

The Economic Recovery Policy (ERP) launched in 1987 registered significant progress in various sectors of the economy including construction, manufacturing as well as mining and quarrying. Despite Uganda's impressive macro economic performance it is still one of the poorest countries in the world. Poverty reduction is therefore a fundamental objective of Uganda's development strategy.

The poverty eradication action plan (PEAP) introduced in 1997 is a guiding framework for achievement of poverty eradication in Uganda. It adopts a multi-sectoral approach, recognising the multi-dimensional nature of poverty and inter-linkages between underlying factors. It aims at promoting good governance and security, economic growth and transformation, the ability of the poor to raise their incomes, and the quality of life of the poor. Uganda has also an aspiration to attain a highly trained, competent and knowledgeable labour force that is motivated, responsible, efficient, enterprising, innovative and industrious. The people also aspire for secure and well–remunerated employment.

1.2 Structure of the Paper

It is against this backdrop that this paper seeks to explore issues and dynamics in economic growth, employment, poverty and pro-poor policies in Uganda since 1980s. It is now generally recognised that in spite of a most difficult recent history of disorder, civil war, insecurity, destruction of assets and outflow of capital, Uganda has managed over much of the 1990s to maintain a very creditable record of economic growth and poverty reduction. This paper seeks to enhance our understanding of what happened, looking at income growth, poverty reduction, and employment changes.

In Section II, trends and patterns in economic growth between 1987 and 2002 are examined, key features of structural change are identified for two sub-periods, 1992 to 1997 and 1998 to 2002. The available evidence on poverty and inequality is then analysed, looking at both income-related measures and other indicators of poverty.

Section III examines the main features of growth and structural change in the labour force over the 1990s. It provides some estimates of employment elasticities and explores some links between employment expansion and poverty reduction.

In Section IV, an attempt is made to model the main determinants of employment and poverty with a view to quantifying the likelihood of certain types of employment growth having stronger impacts on poverty.

In Section V, some of the inter-linkages between employment, economic growth and poverty work are examined in more detail.

In the final section, the main findings of the paper are briefly summarized.

II Analysis of Economic Growth and Poverty Reduction

2.1 Introduction

This section begins by reviewing trends in economic growth and their links to the process of structural transformation of the economy; this analysis then leads into a discussion of poverty trends and the extent of social transformation in Uganda, considering both income and other poverty measures. The basic question being investigated is the extent to which growth has resulted in poverty reduction over the years.

Economic growth rates in Uganda have been relatively well monitored since the 1980s, while poverty data became easily available starting in the 1990s, following the increased prioritization of poverty reduction within the national development framework. It was not until 1995 that policy makers in Uganda started realizing that economic growth is a necessary but not sufficient condition for reducing poverty in the country and therefore carefully analyzed the existing data relating to poverty, to come up with the Poverty Eradication Action Plan (PEAP) in 1997. Implementation of the PEAP since that time has led to periodic monitoring of poverty trends in the country and attempts to assess their links to economic growth.

2.2 Economic Growth Trends

According to the available statistics, Uganda's GDP and GDP per capita have been growing since 1986, although the rates have varied greatly from year to year. The country has an impressive sustained growth record over the period. In 2002-03, GDP was 2.4 times its 1987-88 level and GDP per capita was 1.5 times its 1987-88 level. There is, however, some evidence that growth has recently slowed down in both aggregate and per capita terms. Thus over the 6 years 1991-92 through 1996-97, GDP increased by 42 per cent and per capita GDP by 20 per cent. Over the subsequent 6 years, 1997-98 to 2002-03, the increase was much less, by 34 per cent and 13 per cent respectively. (See Table 2.1).

Table 2.1: Trends in Total GDP and GDP per capita at factor cost at constant 1997/98 prices

Financial year	GDP (mill.shs)	GDP per capita (shs)	GDP growth rate %	Per capita GDP growth rate %
19987-88	3,786,258	247,468	7.3	4.4
1988-89	4,020,985	255,447	6.2	3.2
1989-90	4,241,117	261,878	5.5	2.5
1990-91	4,473,376	268510	5.5	2.5
1991-92	4,639,669	269,343	3.7	0.3
1992-93	5,010,004	281,156	8.0	4.4
1993-94	5,279,982	286,442	5.4	1.9
1994-95	5,807,790	304,585	10.0	6.3
1995-96	6,292,700	319,028	8.3	4.7
1996-97	6,597,080	323,323	4.8	1.3
1997-98	6,888,596	326,369	4.4	0.9
1998-99	7,393,862	338,643	7.3	3.8
1999-2000	7,828,950	346,632	5.9	2.4
2000-01	8,274,376	354,155	5.7	2.2
2001-02	8,772,644	362,980	6.0	2.5
2002-03	9,199,814	367,951	4.9	1.4

Source: UBOS data, worksheets, September 2003 (unpublished)

The relatively good performance of GDP growth in the first phase, 1991-92 to 1996-97 was due to several factors. Important among these was the restoration of peace, the elimination of internal conflicts and the restoration of law and order. Public spending priorities shifted away from military expenditure and the police towards road construction. Measures were taken to rebuild investor confidence, to simplify procedures, and to attain macroeconomic stability and implement economic liberalization. In the area of liberalization, of particular importance was trade liberalization, liberalization of coffee marketing, and privatisation of public enterprises. This period also witnessed the coffee boom, when international prices were favourable, enabling farmers to earn high profits.

However, from around 1997, the impact of these measures may have begun to wear off; also international prices for the major export commodities, notably coffee, declined. Luckily, Uganda's export diversification strategy had taken off with non-traditional export commodities such as fish, hides and skins and horticulture coming on to the market. Unfortunately, the growth of the economy was impeded by the ban imposed by the European Union on fish exports from Uganda due to quality concerns. Even though this ban was subsequently lifted, the fish industry is yet to recover to the levels that were attained in 1998 in terms of volumes. The growth of the economy has slowed down due, among other factors, to deterioration in the terms of trade, and the re-emergence of insecurity in the northern region of the country.

GDP per capita has followed a similar pattern as overall growth, rising relatively faster in the first phase and slowing down over the second phase up to 2003. As we attempt to show later, not all regions and socio-economic categories gained equally from the benefits of growth.

2.2.1 Key Features of Structural Change

Economic growth in Uganda was initially accompanied by substantial structural changes in GDP. The percentage shares of three major sectors, A, I and S in Table 2.2 indicate that a sharp fall between 1992 and 1997 in the A sector, from 49 to 41 per cent and a sharp rise from 13 to nearly 19 per cent in the I sector were the only two major changes. Also the decline in A and rise in the I sector were of a much smaller order in the latter period 1998-2002 when compared to the former period, 1992-1998. Looking at agriculture proper, the production of field crops, its share declined from 36.9 per cent to 31.1 per cent between 1992 and 1997. Over the same period the share of manufacturing rose from 6.4 to 9.3 per cent. Between 1998 and 2002, the share of agriculture proper declined a little, from 32 per cent to 30.6 per cent, while that of manufacturing rose modestly, from 9.4 to 9.7 per cent. These results suggest that the pace of structural change also diminished alongside deceleration in the growth of GDP, reported earlier. This is not unexpected, for the pace of structural change is dependant on the pace of economic growth.

Table 2.2: Sectoral Contributions to GDP (%) for 1992 to 2000

Sector	1992	1997	1998	2002
A	48.8	41.3	41.8	39.8
I	13.1	18.5	18.6	19.4
S	38.1	40.1	39.6	40.8
Total	100	100	100	100

Source: UBOS data by calendar year.

Summarizing this picture of growth and structural change over the decade since 1992, growth has remained positive, but has slowed down to some extent in later years, and this deceleration is also reflected in the pace of structural change. This conclusion is supported by a growth accounting exercise by D Dunn in 2002, which finds that total factor productivity rose by 3 per cent per year between 1992 and 1997 and has since fallen back to 0.5 per cent per year. While the positive impact of improved security and the elimination of macroeconomic distortions may have not fully been exhausted, increasingly economic growth will require significant increases in the rate of investment.[1]

The end of the coffee boom, trade restrictions and deterioration in the terms of trade, the impact of weather conditions and other factors on agriculture ---all contributed to the relative slowing down of economic growth in recent years. Also, the slowing down is partly explained by the recent poor performance of the Northern Region where insurgency has affected security. Unfortunately, regional estimates for GDP do not exist. These events are reflected, as we shall see later, in estimates of poverty and wage rates.

The rapid growth of population may have also acted as a constraint on economic growth. The 2001 Census has revealed that population is growing at the rate of 3.4 per cent annually. This has led to a very high dependency ratio, with over half the population under the age of 15. There are again the likely negative effects of the current HIV/Aids epidemic in the country.

The immediate challenge lies in speeding up economic growth and structural transformation in the Ugandan economy if the expected poverty outcomes, as reflected in the PEAP, are to be achieved. In the meantime, it is desirable to know whether the economic growth that has been achieved so far has translated into benefits for the majority of Ugandans through reduced poverty. This is the thrust of the rest of this paper.

2.3 The Poverty Scenario

Arising from the UNHS data and the 2 participatory assessments conducted in Uganda in 1998 and 2002 respectively, there is general agreement that poverty is a lack of basic needs and services such as food, clothing, shelter, basic health care, education, markets, roads, information and communication. Lack of adequate productive assets such as land, poor access to credit and other productive inputs, a situation of powerlessness and social exclusion are other dimensions of poverty. Often, lack of adequate productive employment opportunities is a major cause of poverty, and this is reflected in income and other measures of poverty. While most of these poverty dimensions are monitored periodically through the household surveys, some, particularly those relating to qualitative aspects, are difficult to measure and hence data does not exist on them.

In order to get a fuller picture of poverty conditions in Uganda over the years, this section explores progress in poverty reduction looking at the income as well as other relevant dimensions of welfare. Income poverty, which is usually measured in terms of average personal consumption expenditure, relies heavily on data obtained from national household surveys. This data is used to estimate the proportion of the population below a poverty line, defined in terms of the money value of a basket of commodities. Other dimensions of poverty may be assessed in terms of the level of access or deprivation of basic services, indicators such as mortality rates and asset levels.

[1] For an excellent discussion of this issue see David Bevan et al: "Discussion Paper on Economic Growth, Investment and Export Expansion," prepared for the Ministry of Finance, Planning and Development, Uganda.

2.3.1 Income Poverty

Poverty may be defined in terms of inadequacy of income in relation to essential consumption needs. This in turn requires that the latter is defined and quantified. The poor in Uganda are defined as those members of the population whose personal consumption expenditure is below the poverty line. Appleton (2000) sets the poverty line at 16,012 Ugandan Shillings (1989 prices) per adult equivalent per month, computed on the basis of the price of an average food basket for the poor population and an adult male calorie consumption of 3,000 calories per day plus estimated consumption of non-food items.[2]

a) Overall and regional poverty trends

High rates of growth of GDP and GDP per capita are clearly an essential requirement for reducing poverty. The benefits from Uganda's economic growth have been reasonably broad based with overall income poverty declining from 56 percent in 1992 to 35 percent in 2000. This implies that in the year 2000, 35 percent of the Ugandan population was unable to meet their basic needs and are living below the poverty line. However, these benefits have not been equally distributed between regions and socio-economic groups as further explored below. Table 2.3 below shows the incidence of poverty for the period 1992 –2002.

Table 2.3. Poverty incidence in Uganda during 1992-2000

Survey period	**1992/ 93**	**1993/ 94**	**1994/ 95**	**1995/ 96**	**1997/ 98**	**1999/ 2000**	**2002/03**
Uganda	**55.7**	**52.2**	**50.1**	**48.5**	**44.0**	**35.1**	**38.8**
Residence							
Urban areas	27.8	20.6	22.3	19.5	16.3	10.1	14.4
Rural areas	59.7	56.7	54.0	53.0	48.2	39.0	42.7
Region							
Central	44.7	35.6	30.3	30.1	27.7	20.1	22.3
Eastern	59.5	58.0	64.9	57.5	54.3	37.3	46.0
Northern	71.4	69.2	63.5	68.0	58.8	64.8	63.7
Western	52.5	56.0	50.4	46.7	42.0	28.0	32.9
Central rural	52.9	43.4	35.9	37.1	34.3	25.6	27.6
Central urban	21.2	14.2	14.6	14.5	11.5	7.0	7.8
East rural	61.2	60.2	66.8	59.4	56.4	39.2	48.3
East urban	42.6	30.5	41.5	31.8	24.8	17.4	17.9
West rural	53.6	57.4	51.6	48.3	43.2	29.4	34.3
West urban	34.4	24.9	25.4	16.2	19.9	5.6	18.6
North rural	72.7	70.9	65.1	70.3	60.7	66.7	65.0
North urban	49.7	46.2	39.8	39.6	32.6	30.6	38.9

Source: UNHS/Appleton 1999 FMS UNHS II, and Results of the 2002-03 National Household Survey.

[2] For a fuller discussion, see Simon Appleton, "Changes in Poverty and Inequality," in Ritva Reinikka and Paul Collier (eds): *Uganda's Recovery: The Role of Farms, Firms and the Government*, Washington DC, 2001, especially Annex 4.1.

As Table 2.3 indicates, the proportion below the poverty line has declined consistently throughout the 1990s. The period 1992-93 to 1996-97, which saw relatively rapid GDP growth, also witnessed a sharp decline in the poverty percentage from 56 to 44 per cent. This decline continued through to 1999-2000, but the results for 2002-03 suggest that the decline has reversed and that the poverty proportion has risen again to 38.8 per cent. This may, in part, be a lagged impact of the slowing of GDP growth after about 1997. Of course, one would have to await results for a few more years before being sure that a rising trend in poverty has appeared, and factors other than the growth rate of GDP could have played a role in causing this outcome.

For all the region-residence components, there was a decline in the poverty percentage over the period from 1992-93 to 1999-2000. However, between 1999-2000 and 2002-03, it appears that the poverty proportion rose in Central, Eastern and Western Uganda and fell marginally in North Uganda. Poverty proportions had been declining in both rural and urban areas until 1999-2000, but again, in 2002-03, the reported proportions are higher in all region-residence categories, except for rural North Uganda, where a decline was reported.

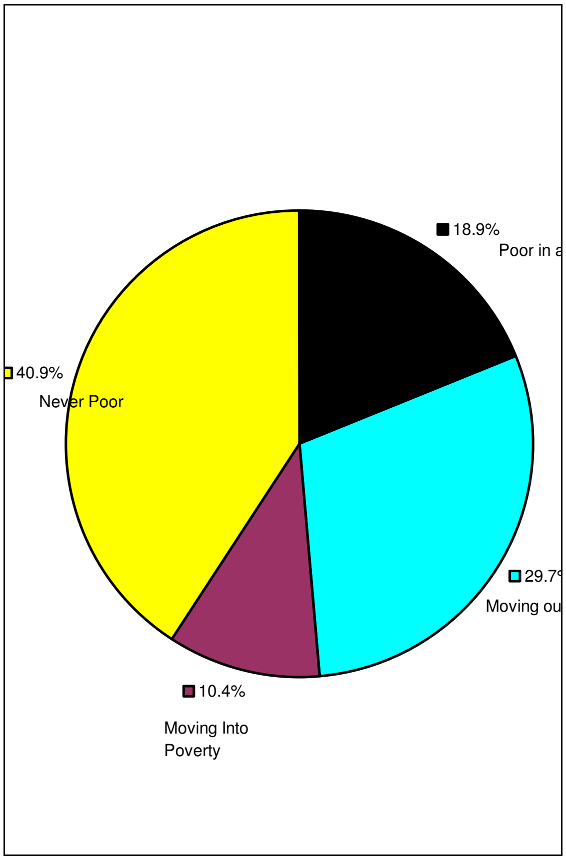
Of all the regions, the North had the highest poverty incidence in 1992-1993, but until 1996-97 it shared in the general pattern of declining poverty. However, the most recent estimates for 1999-2000 and 2002-03 suggest a reversal of this pattern. Between 1996-97 and 1999-2000 the poverty proportion in rural areas of the North rose from 60 to 67 per cent, and declined slightly to 65 per cent in 2002-03. The problems of the North need to be addressed effectively if the trend of poverty reduction is to be maintained. The proportion of the poor living in the North had been fairly constant at 22 per cent until the results for 2000 showed that the North now accounted for about 36 per cent of the poor.[3]

The observed fall in poverty countrywide occurred at a time when the benefits of stable conditions and a liberalized economy were unfolding. Until about 1997, there was a spurt in international coffee prices which benefited Ugandan growers, who had got the benefits of liberalization in coffee marketing systems.

Further analysis of existing data on households that were interviewed in 1992-93 and 1999-2000 by Lawson et al, 2003 throw more light on poverty dynamics in Uganda and regional disparities. It has been found that despite all the policy interventions put in place by Government since the beginning of the 1990s, there are a core number of households that have remained in poverty during the 8-year period (1992-1999) known as the chronically poor and a substantial number who have moved back into poverty (Figure 2.2). An estimated 18.9 percent of households were poor in both 1992 and 1999 while 10.3 percent of households who had not been poor in 1992 moved into poverty by 1999.

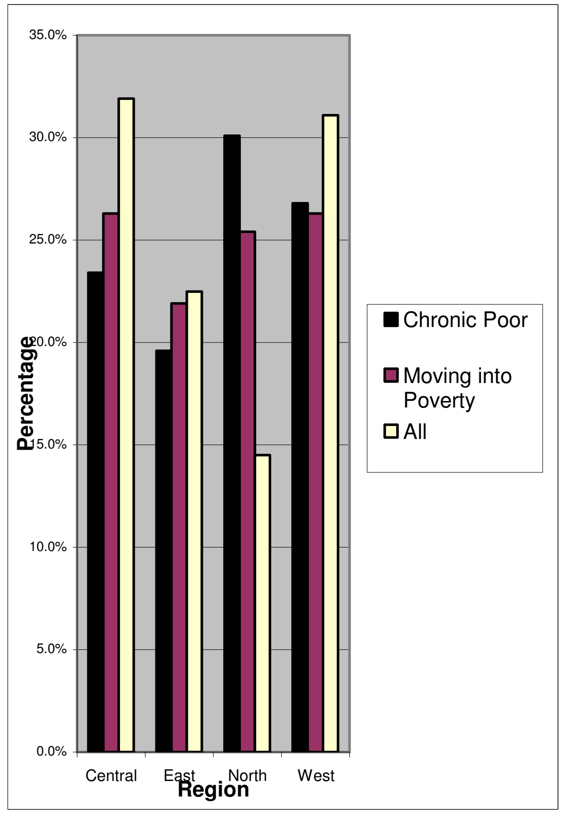
[3] See Republic of Uganda, Ministry of Finance, Planning and Economic Development, Discussion Paper 5, "Challenges and Prospects for Poverty Reduction in Northern Uganda," March 2002, for details and a fuller discussion.

Fig 2.2: Poverty Dynamics in Uganda 1992-1999



Source: 1999/2000 UNHS.

Fig 2.3: Proportion of Chronic/Transient Poverty by Region in 1999



Source: 1999/2000 UNHS.

Almost one third (30.1 percent) of the chronically poor and one-quarter (25.4 percent) of households moving into poverty are resident in Northern Uganda. This, as noted earlier, is a region where the problem is particularly serious.

But this is not to say that there were no chronically poor households or those moving into poverty in the other regions of the country as can be seen in Figure 2.3. Attempts to explain the causal factors for these trends shows that households that are persistently in poverty or are moving into poverty are characterized by:

- Household heads and family members that are less educated
- A low asset base particularly land and livestock
- Residence in insecure or conflict affected areas
- Have large families
- Limited access to basic infrastructure and social services and
- Being largely engaged in subsistence agriculture.

This implies that future efforts to ensure that economic growth is more equally distributed regionally must focus more on securing peace and security in the North, strengthening the human resource base, promoting non-agricultural wage employment activities, and increasing access to basic and social services especially by the poor, among other factors.

While percentages below the poverty line were falling until 1999-2000, the same cannot be said of inequality. As Table 2.4 shows, overall inequality appears to have declined during the phase of growth from 1992-93 to 1997-98, but then increased until 2002-03, which was the phase when GDP growth had slowed down. Both rural and urban inequality declined until 1997-98 and rose subsequently.

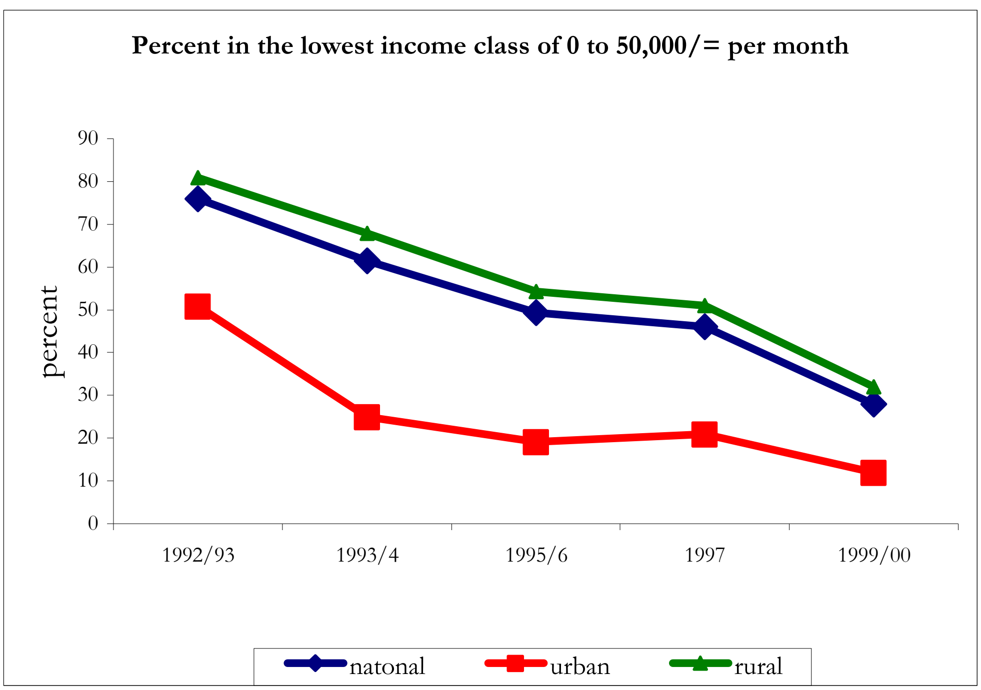
Table 2.4: Gini Coefficients, 1992-93 to 2002-03 (percent)

Year	Rural	Urban	National
1992-93	32.6	39.4	36.4
1997-98	31.1	34.5	34.7
2000-01	32.2	40.4	38.4
2002-03	36.3	47.7	42.8

Source: Appleton (2001) and UBOS, Results of the 2002-03 National Household Survey.

In figure 2.4 below, which relates to the period 1992-93 to 1999-2000, apart from the obvious rural-urban differences, there are high proportions of low-income earners in both rural and urban areas as well as nationally. Although the percentage of people with income at equal to or less than 50,000 shs per month is a declining in Uganda, the percentages are still high. Most Ugandans especially in rural areas were in this category in 1992-93. There was a notable reduction in this group of people by 1997 and the decline continued, at a somewhat reduced pace, through to 1999-2000.

Figure 2.4: Percent in the lowest income class of 0 to 50,000/= per month



Source: Appleton (2001) and UBOS, Results of the 2002-03 National Household Survey.

b) Poverty by socio-economic group

In this section further analysis reveals the types of households that benefited most from the economic growth. All income groups enjoyed higher consumption levels in 2000-01 compared to 1992-93 but the gains were largest for the richest 10 percent of the population who saw their real per capita consumption levels increase by 20 percent. Consumption levels of the poorest decile grew by just 8 percent during this period (MFPED, 2001)[4]. Table 2.5 shows the incidence of consumption poverty among different socio-economic groups in rural areas

Table 2.5 Incidence of consumption poverty by socio-economic categories for 1992-2000

Sector	% of poor below the poverty line					
	1992-93		1996-97		1999-2000	
	Rural	Urban	Rural	Urban	Rural	Urban
National	60	28	54	20	39	10
Food Crop	64	-	63	-	46	-
Cash crop	63	-	47	-	34	-
Agriculture	-	55	-	36	-	23
Non-crop agric	57	-	43	-	44	-
Mining, manufacturing, utilities and construction	45	38	40	25	35	8
Private Sector Services	40	16	31	12	22	7
Government Services	41	26	36	22	22	6
Not working	65	32	68	18	53	15

Source: Appleton, 2001; PSR, 2001.

Most socioeconomic groups benefited from the broad based growth experienced during the 1990s. However, poverty continues to be higher among groups that reside in rural areas than those in urban areas. And in particular, poverty remains particularly high among households engaged in agriculture despite the observed decline in poverty among these households. In fact, households engaged in non-crop agriculture – representing about 3 percent of the rural population – experienced increased poverty between 1996 and 2000. This was attributed to the ban on European Union fish imports from Uganda during this period and the persistent drought that affected livestock production in the North and West.

The recent participatory poverty assessment (PPA) conducted in 2001/2002 (MFPED, 2002)[5] confirms that the productive sectors (crop, livestock and fisheries) continue to perform poorly and this has negatively affected households' levels of income. Some of the key factors behind these observed trends were reported to include low prices offered in a liberalized environment, lack of markets, the depreciating quality of land and the environment, poor farming practices coupled with limited access to extension advice, high and multiple taxes and insecurity and human displacement affecting the North and East. This trend was reported in 9 out of the 12 districts sampled in the PPA. These trends are worrying given the fact that

[4] MFPED, 2001: Uganda Poverty Status Report 2001.

[5] MFPED, 2002: *Deepening the Understanding of Poverty*, Second Participatory Poverty Assessment Process

majority of households in rural areas derive their livelihood from agriculture and yet about half of them are still poor. Policy initiatives to remove constraints to agricultural production must become central in the poverty reduction strategies.

The high observed growth rates in the manufacturing, utilities, construction and private sector services translated directly into poverty reduction in households that are engaged in these activities, especially in the urban areas. For example in urban areas, poverty among households engaged in private sector services, constituting over 50 percent of the population, fell from 16 percent in 1992-93 to 7 percent in 2000.

It is possible to compare changes in percentages of households below the poverty line, classified on the basis of the occupation of the head of household. The estimates are presented in table 2.6 below.

Table 2.6: Percentages of Household Heads below the Poverty Line by Sector, 1992-2002

Sector	**1992-93**	**1996-97**	**1999-2000**	**2002-03**
National	***55***	***49***	***35***	***38***
Crop agriculture				50
Food crops	64	62	45	
Cash crops	60	46	34	
Non-crop agriculture	55	40	41	34
Mining	32	74	43	26
Manufacturing	44	27	25	28
Public utilities	34	11	..	12
Construction	36	35	23	23
Trade	25	20	13	17
Hotels	26	19	17	21
Transport &communications	32	15	15	18
Miscellaneous services	27	28	18	28
Government services	36	30	17	13
Not working	58	62	44	38

Sources: Appleton in Reinikka and Collier (2001), Tables 4.12 and 4.13, and UNHS 2001 and 2002-03.

The results provided by Table 2.6 must be interpreted with some caution as the reported sectoral attachment of a household head may differ from those of household members and the latter may include the principal contributor to household income. An increase in the incidence of poverty among households engaged in crop agriculture appears to have occurred between 1999-2000 and 2002-03, and this is in marked contrast to declines over the period from 1992-93 to 1999-2000. Again, a similar pattern obtains for the services sector with the conspicuous exception of government services. In government services, staff reductions combined with improved pay probably accounts for this result.

c) Most vulnerable among the poor

But even within any given socioeconomic group, there are categories of the poor that are more vulnerable and disadvantaged than others. By virtue of their numbers, children and youth are heavily represented among the poor in Uganda. They constitute about 76 percent of the population based on the 2002/03 UNHS. Poverty among children is exacerbated by living with HIV/AIDS, being orphans, lack of basic necessities, no support for health and education and living in conflict areas. Youth on the other had lack employment opportunities as they have inadequate skills, they have limited access to productive assets like land and they suffer from problems associated with early marriages.

Women and widows in all socio-economic categories are heavily represented among the poor due to lack of rights and control over major productive assets resulting from the traditional roles ascribed by society, the burden of many dependents and land or property grabbing by relatives upon the death of the spouse. Other extremely vulnerable and poor people include those who are physically disabled, the elderly, internally displaced persons and refugees.

2.3.2 Other Dimensions of Poverty

Reducing poverty is not only about enhancing private consumption but also should encompass improvement in social welfare indicators. The other poverty measures investigated here focus on publicly provided goods and services including health care, education and water, HIV/AIDS prevalence rates, access to assets and finance particularly land and micro-credit and outcome/impact indicators on mortality, health and nutrition. Selected information on trends in key social developments in Uganda during 1991-2000 is provided in Table 2.7 below. The implications in relation to education, health and HIV/AIDS are discussed below. Other relevant issues like access to agricultural extension, micro-credit, and environment and natural resources are also discussed below.

a) Education

The Government's policy of Universal Primary Education (UPE), initiated in 1997, has led to an upsurge in gross primary enrolment from 2.6 million to 7.3 million in 2002. However, net primary enrolment rates actually fell from 84 percent in 1997 to 77 percent in 2000, possibly as a result of pupil drop-out rates particularly of poor children and girls. The two most critical factors for the success of the UPE policy have been the government's commitment to increase education financing and timely and concerted donor support.

To illustrate the rapid expansion in funding for education, public education spending increased from 2.6 percent of GNP in 1996 to 4 percent in 2000, equivalent to an increase from 24 to 32 percent of the total discretionary recurring budget. The share of primary education in the total education budget has now reached 70 percent (World Bank, 2002). The main challenges are that the quality of education is till poor, primary retention rates are low, and there is a low transition rate from primary to secondary or vocational education. The increased enrolment has necessitated additional strategies aimed at ensuring increased access to post-primary schooling. Most Government efforts are now and in the future focused on increasing access countrywide at secondary, vocational and technical education.

Table 2.7: Social Development Indicators in Uganda, 1991 – 2000.

Indicator	1991	1995	2000	Target	Year
Poverty and Inequality					
Poverty Level (%)	56	44	35	10	2017
Gini Coefficient (inequality)	0.364	0.366	0.384	-	-
Demographics					
Total Population (millions)	16.7	19.3	22.2		
Female Population (millions)	8.5	9.8	11.2		
Male Population (millions)	8.2	9.5	11.0		
Population Growth Rate (%)	2.5		2.9		
Education and Literacy					
Gross Primary Enrolment (millions)	2.3	2.6	6.8	-	-
Net Primary Enrolment (%)		84	77	100	2003
Gender: Ratio of girls enrolment to boys (%)		-	99	-	-
Pupil-teacher ratio		-	65:1	49:1	2005
Pupil-textbook ratio		-	6:1	3:1	2005
Pupil-classroom ratio		-	106:1	92:1	2005
Adult Literacy rate (%)	54	62	68	85	2005
Female literacy rate (%)		50	57	-	-
Male literacy rate (%)		73	74	-	-
Health and Nutrition					
Under-five mortality (per 1,000 live births)	180	147	152	103	2005
Infant Mortality (per 1,000 live births)	122	81	88.4	68	2005
Maternal mortality (per 100,000 live births)	700	506	505	354	2005
Children underweight (weight-for-age)		25.5	22.5	-	-
Children stunted (height-for-age)		38.3	38.6	-	-
Children wasted (weight-for-height)		5.3	4.0	-	-
Immunisation (DPT3) (%)		61	48	60	2005
Deliveries at Health Facility		35.4	19		
Births with medical assistance (%)	38	38	39	50	2005
Malaria (proportional morbidity) (%)		25	37	-	-
Price of dose of antibiotics (Shs)		1,900	1,100		
Price of dose of malaria drugs (Shs)		1,500	1,099		
Sexual and reproductive health					
HIV/AIDS prevalence (%)		14	6.1	5	2005
Fertility Rate (children per woman)		6.9	6.9	-	-
Contraceptive prevalence Rate (%)		15	23	30	2005
Unmet need for Family Planning	52	29	35		
Water and sanitation					
Rural access to safe drinking water (%)		39	53	65	2005
Urban access to safe drinking water (%)		-	62	80	2005
Households with latrine or toilet (%)		79.9	82.3	-	-

Note: 'Target' refers to Government of Uganda Target.
Sources: Uganda Demographic and Health Survey (1995, 2000/01), Simon Appleton (2001), Ministry of Water, Lands and Environment (DWD), Uganda Poverty Status Reports 2001 and 2003 and PRSP Progress Report 2002.

In line with the Gender Millennium Development Goal to *eliminate disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015*, the gender gap at the primary level has already been eliminated with as many boys in school as girls. The gender gap improved from 93 percent in 1992 to 97 percent in 1997 and 99 percent in 1999/2000 (PSR, 2001). The Ministry of Education Statistics show that the gender gap at secondary level is yet to be closed: there are between 20 to 35 percent more boys than girls in S1-S4, and over 60 percent more boys in S5-S6 (Levin, 2002). More action needs to be undertaken to overcome this challenge.

Regionally, large parts of North Uganda, particularly those affected by conflict, lag behind the rest of the country in literacy. Children in camps for the internally displaced are unable to access meaningful education on a consistent basis due to the inadequacy of facilities and trained teachers. Women are even more affected having much lower literacy levels than their male counterparts. For example in 2000, the illiteracy rate amongst women in the north stood at 67 percent almost double that of their male counterparts at 36 percent (PSR, 2001).

b) Health and HIV/AIDS

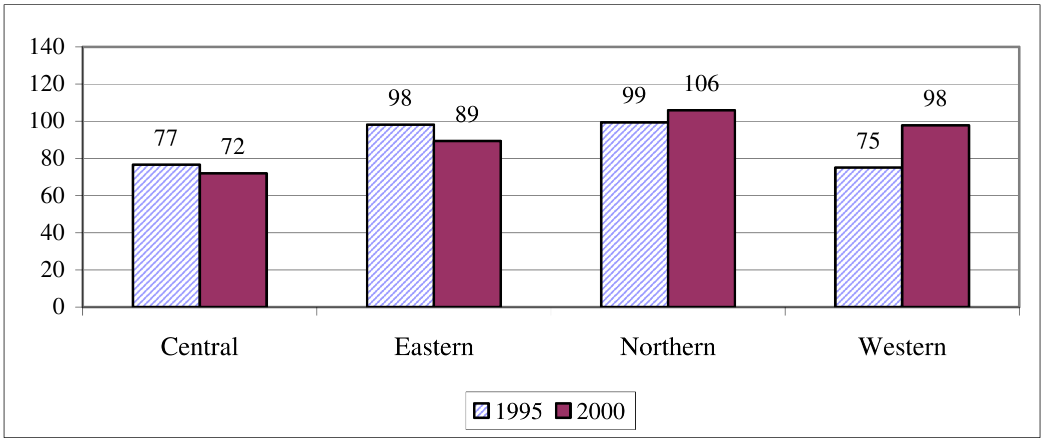
Improving the health status of the Ugandan population remains a major challenge to Government. We examine the trends in one of the most important outcomes from health and other sectoral interventions: infant, maternal and under-five mortality rates based on the 1995 and 2000 Uganda Demographic and Health Surveys and 1999/2000 UNHS. The prevalence rates of HIV/AIDS, a key determinant of infant mortality are also presented.

Infant mortality is defined as the probability of dying between birth and age one while under-five mortality is the probability of dying between birth and the fifth birthday. Levels of infant, under-five and maternal mortality reduced significantly during the 1991-1995 period, but have since either deteriorated or stagnated by 2000 (Table 2.8). The pattern of high and increasing mortality rates between 1995 and 2000 is surprising and disturbing, because Uganda experienced high economic growth and poverty reduction over much of period from 1992. Of course, it takes time for improved income levels to have an impact, and other factors may also be important.

Although the causal factors are not fully known, there seems to be a strong correlation of infant mortality with income and wealth. Based on the UNHS data, it has been found that infant mortality is highest amongst the poorest 20 percent of the population. Other explanatory factors include the high levels of HIV/AIDS and malaria that have direct impact on mortality rates (PRSP progress report, 2002).

There are regional differences in mortality rates, as illustrated by the occurrence of infant mortality (Figure 2.5). Infant mortality fell in both the Central and Eastern regions while it increased in the Northern and Western regions. This corresponds to the fall in poverty in the Central and Western regions during this period, and the corresponding rise in poverty in the Northern region. It is has not been established why infant mortality rose in the West when income levels were rising, but some evidence points to a poor response to immunization in the region and malnutrition arising from sale of poor quality food.

Figure 2.5: Infant Mortality by Region, 1995-2000 – deaths/1000births.



Source: UDHS (1995, 2000/01).

In the recent participatory assessment, ill health has been identified by poor people as the main cause in poverty in Uganda. Malaria is one of the leading causes of morbidity and mortality as well as HIV/AIDS. The HIV sero prevalence declined from 14 percent in the mid-1990s to 6.5 during 2001/2002, which is still unacceptably high. Although the proportion of the affected people and the rate of spread of HIV/AIDS are decreasing, due to the aggressive strategies to minimize effects of the scourge, many people are still affected by the epidemic with devastating health, psychosocial and economic consequences.

Key factors for the stagnation of the HIV/AIDS levels include poverty, prostitution among men and women and movements caused by displacement in conflict-affected areas in the North. Most line ministries have integrated HIV/AIDS strategies and developed appropriate budget lines to address this challenge. In addition, resources have been mobilized by government and civil society to help run HIV/AIDS programmes at district level, and help the poor access such services.

The removal of cost-sharing in government-funded health centres and hospitals has resulted in large populations, particularly the poor, to seek health services elsewhere. The main challenge now is the lack of drugs to sufficiently treat these patients. Unfortunately, as Table 2.8 shows, a significant section of the population (34.9%), especially in rural areas, does not receive any medical attention due to distance and cost barriers. For those who do, the majority again receive treatment from private hospitals or clinics**.**

Table 2.8: Incidence of Sickness and type of Medical Attention in Uganda

Medical Attention	Rural (%)	Urban (%)	Total (%)
No medical attention	36.2	25.1	34.9
Home treatment done	21.0	25.7	21.6
Outdoor treatment at Govt. Hospital /health Care	15.4	13.0	15.1
Outdoor treatment at private Hospital /clinic	22.0	30.2	23.0
Treatment with private doctor	1.3	1.9	1.4
Treatment through pharmacy	1.6	2.2	1.7
Treatment with traditional doctor	0.8	0.4	0.8
Indoor patient at Government Health Facility	0.7	1.0	0.8
Indoor patient at private health facility	0.3	0.3	0.3
Others not stated above	0.5	0.3	0.5
Total	**100**	**100**	**100**

Source: Source: Health Services in Uganda by Roger Hay, June 1998.; UNICEF

What can be summarized from the above is that building capacity takes time and requires consistent, broad-based policy implementation if it is to yield the desired results in terms of economic growth and poverty eradication. Human resources include skills, knowledge, good health and ability to work. The government believes that providing basic education (UPE) for all the population is one of the most important policy measures which will expand the economy and reduce poverty in Uganda. Provision of social services such as health, water and sanitation are also crucial for building human capacity. Inadequate, inaccessible or poor social services reduce productivity.

c) Agricultural extension

The share of the population with access to extension services remains low, though it has increased nationally from 9.5% in 1992/93 to 15.0% in 1999/2000. The regional distribution is fairly even, although the Northern region is still lagging slightly behind, in spite of recent increases. (See Table 2.9).

Table 2.9: Access to Extension Services by Region (Output)

	Uganda	Central	East	North	West
1992/93	9.5%	10.2%	8.3%	7.6%	11.1%
1999/00	15.0%	15.1%	14.9%	13.5%	16.0%

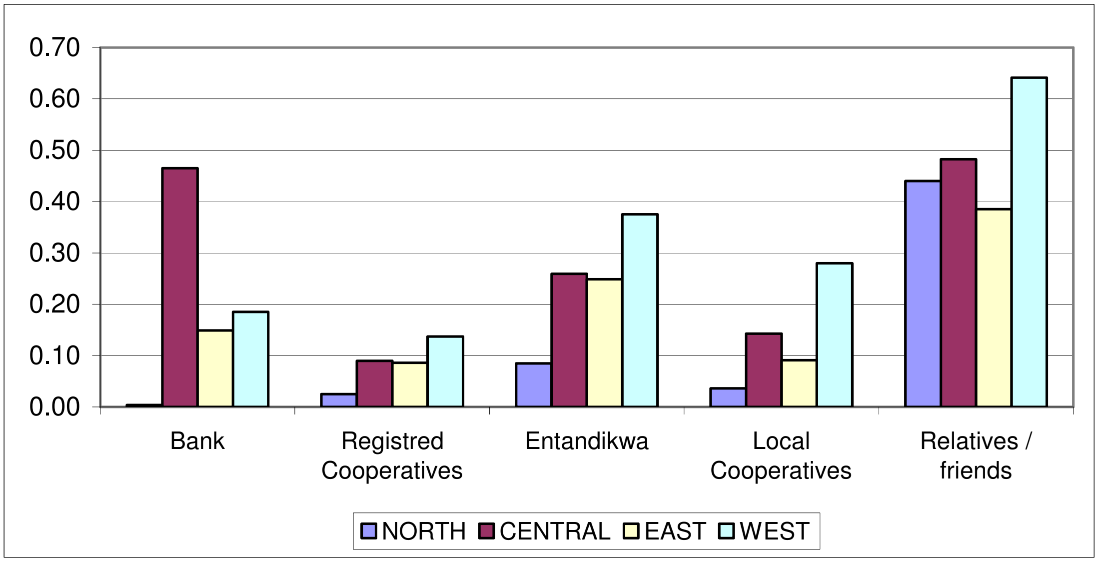
Source: Poverty Status Report 2001, p. 69
Note: 'Contact with extension agent at least once a year'.

The rolling out of the National Agricultural Advisory Services (NAADS) since 2001 to 16 districts in Uganda so far should help in improving access to extension services in the different parts of Uganda. The NAADS programme aims at establishing a decentralized, farmer-owned and private sector serviced extension delivery system, particularly targeting the poor and women. It is expected that the NAADS programme will cover 21 districts by 2003/04.

d) Micro credit

It is estimated that about 43 percent of Ugandans lack access to financial services, the majority of these residing in rural areas. Most of the services are available in urban areas and it is mostly women engaged in commerce who have taken advantage of these services. Due to high interest rates and lack of collateral, most people prefer to borrow from informal sources such as friends and relatives rather than relying on the formal banking system (Figure 2.6).

Figure 2.6: Access to Credit Facilities – Availability to members of the Community



Source: Calculations from UNHS 1999/2000 data.

It is mostly in the Central region and Western region that people are more inclined to access credit from formal sources. This could be explained by the relatively lower poverty levels and consequently higher asset base that enables people to borrow against their assets. But it should be noted that the land tenure system in Northern Uganda and parts of the East, which is largely communal is not very conducive for borrowing.

e) Environment and natural resources

Most of the poor, especially in the rural areas, depend on and derive their livelihood from the environment and natural resources (ENR). The rapid growth that has been observed in the 1990s has unfortunately put stress on the natural resource base resulting in increased environment degradation. This has been manifested in declining soil fertility, deforestation, rangeland degradation and decline in fish stocks -- all of which are impacting negatively on people's ability to raise incomes and improve their welfare. Although no distinct patterns can be observed in the nature of environment degradation, there are noticeable regional variations in the way people are now able to access and use the natural resources.

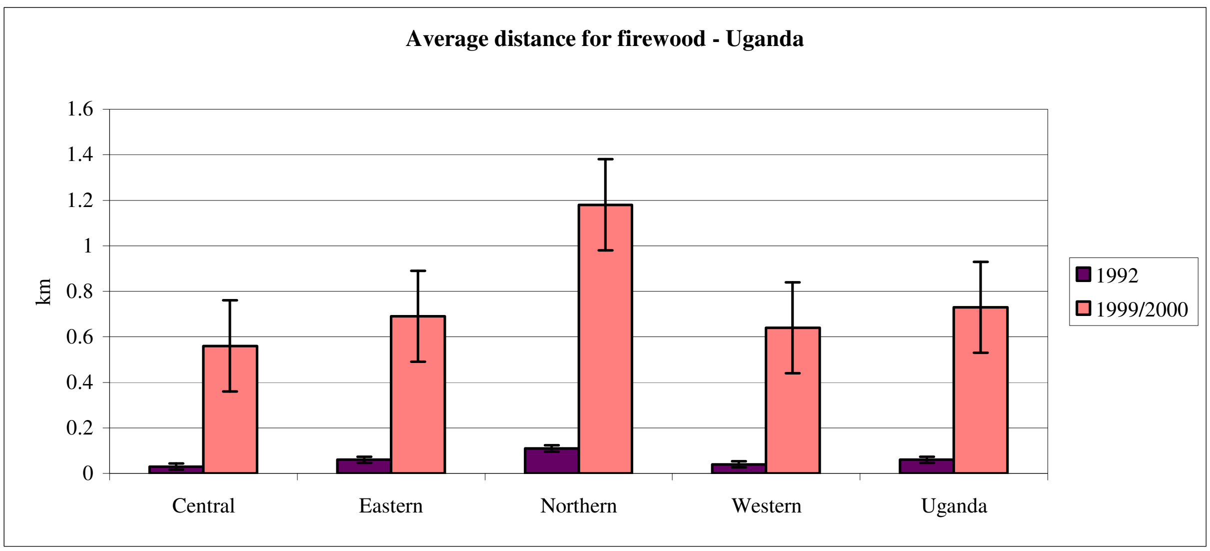
- Households in large parts of Northern Uganda are unable to access and make use of natural resources due to conflict and internal displacement;
- Severe natural resource degradation is prevalent in southwestern and parts of central and eastern Uganda;

- The majority of urban areas are faced with a problem of poor sanitation and environmental pollution

A case in point to illustrate these trends is drawn from the forestry sector. Forests cover 24 percent of the total land area in Uganda. Recent evidence shows that the quantity and quality of the forest cover has declined over time due to a number of factors including over-harvesting, conversion to other uses, high population growth rates and poor enforcement of regulations (MUIENR, 2000; Plumptre et al., 2000; MWLE, 2002).

Deforestation has had an adverse impact in terms of poverty through increased fuel wood costs, both in terms of money and time spent in collection. The burden imposed by forest degradation on people's livelihood, especially women and children, is exemplified by the sharp increase in the distance travelled in collecting firewood which has increased dramatically between 1992 and 2000 from 0.06km to 0.73km. The distance is even much larger in rural areas, and particularly in northern Uganda (Figure 2.7).

Figure 2.7: Average distance travelled to collect firewood in Uganda 1992 and 2000



Source: data from UBOS, 1992 and 2001

Some plausible explanations have been given to explain the regional differences in forest cover. Dwindling woodland areas and deforestation, without commensurate level of woodlot development for the north, may explain the decline of firewood sources. The west has also witnessed considerable loss of forest cover and commercialization of fuel-wood for charcoal and firewood in homes and industries, including brick burning and tea curing (MFPED, 2002a).

2.4 Concluding Remarks

In this chapter the main trends in poverty have been examined, looking at both income-related poverty as well as other dimensions of the phenomenon. It highlights the key role that economic growth has played in reducing consumption poverty nationally and among most of the socioeconomic groups. This is complemented by the evidence on other features or aspects of poverty, which provide a fuller picture of people's welfare through the long period

of policy interventions since the late 1980s. A key message that emerges from taking a close look at other poverty measures is that despite macroeconomic success and a significant fall in income poverty over the 1990s in Uganda, progress in social and human development has been relatively modest.
Some negative trends have been observed in the form of a slowing in growth rates and patterns of structural change, a rise in inequality after 1997, as well as an increase in poverty between 2000 and 2002. The picture in terms of social development indicators is also mixed, with some achievements and some disturbing trends.

It is evident that not all regions and groups benefited equally from growth and post 1997 trends in Northern Uganda indicate some reversal of the achievements in poverty reduction. As Uganda is predominantly an agricultural country and the majority of the poor were in this sector, the pace of poverty reduction was clearly tied to developments in this sector. The success in establishing peace and security and in deregulation and liberalization certainly led to economic growth and to a reduction in poverty until about 1997, but the effect on growth and appears to have begun to wear off. The coffee boom is over, and the situation in terms of peace and security as well as economic development appears to be unsatisfactory in Northern Uganda, where the proportion of the poor has started to rise. For Uganda as a whole as well the most recent results suggest that poverty is rising.

III Employment, Growth and Poverty

In the absence of regular labour force surveys, it is not possible to provide satisfactory estimates of the labour force on an annual basis. Some figures are available from the Integrated Household Surveys of 1992-93, 1999-2000 and 2002-2003, and for 1997 from the Pilot Labour Force Survey. The estimates for 1992-93 and 1997 are based on a rather inclusive concept of work[6] and assign priority to work over non-work. On the other hand, the estimates for 1999-2000 and 2002-2003 are based on the concept of main activity and hence have a much more restrictive definition of work.[7]

Hence, it is not possible to compare the estimates for the period after 1997 with those for the earlier period. Also, at the time of writing, very limited information for 2002-2003 is available. Even when these results are available, lack of comparability with 1997 will be a constraint, but this could be overcome by reclassification of both 1999-2000 and 2002-2003 data so as to include as workers, not only those for whom it is the main activity, but also those for whom work is not the main activity but the secondary activity. Experience elsewhere[8] suggests that this could result in a reasonable degree of comparability with the earlier estimates of the work force.

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[6] A worker was anyone who was in paid or self-employment for at least one hour during the reference period of 7 days prior to the date of enumeration. Major time spent during this period was not taken into account in determining whether a person was a worker or not.

[7] Main activity is the usual or normal activity situation of a person in respect of his participation in gainful or non-gainful activities during the last 365 days. It is based on major time spent.

[8] For a discussion see J Krishnamurty: "Unemployment in India: The broad magnitudes and characteristics," in T N Srinivasan and Pranab K Bardhan (eds): *Rural Poverty in South Asia*, Columbia University Press, 1987, pp.294-296.

3.1 Changes between 1992-93 and 1997

Table 3.1: Changes in the Structure of the Work Force by Broad Sector, 1992-3 to 1997

Broad Sector	**1992-93** (000's)	**Percentages**	**1997** (000's)	**Percentages**	**Increase in Numbers** (%)
A	4,544	76.7	6,625	77.0	45.8
I	316	5.3	425	4.9	34.5
S	1,066	18.0	1,556	18.1	46.0
Workers	5,926	100	8,606	100	45.2

Source: ILO Investment for Poverty Reducing Employment in Uganda, Dar es Salaam, 2002, Table 2.13, based on UBOS: Integrated Household Survey, 1992-93 and Report of the Pilot Labour Force Survey, 1997.

The economically active population, comprising workers and those who are described as not working, rose sharply, from 6.2 million to 9.1 million over the period 1992-93 to 1997, representing a 46 per cent rise. Among those who were reported as working, the increase was 45 per cent (Table 3.1). The share of agriculture (hereafter the A sector) rose nominally from 76.6 per cent to 77.0 per cent, and this masked a shift within the agricultural work force from food crops towards cash crops. The share of the I sector (comprising mining, manufacturing, public utilities and construction) declined slightly, relative to the work force, from 5.3 to 4.9 per cent. It is indeed surprising that economic growth in this period did not lead to a rise in the share of the I sector. The share of the S sector (comprising trade, hotels, transport and communications, miscellaneous services and government services) remained steady at 18 per cent. Generally, the sectoral shares remained characteristic of an economy at the early stage of development.

Table 3.2: Structure of the Work Force, 1992 and 1997

Sector	**1992 (000's)**	**1997 (000's)**	**1992 (%)**	**1997 (%)**
Crop agriculture	4,383	6,444	74.0	74.9
Non-crop agriculture	161	181	2.7	2.1
Mining	6	18	0.1	0.2
Manufacturing	223	307	3.8	3.6
Public utilities	6	9	0.1	0.1
Construction	81	91	1.4	1.1
Trade	415	606	7.0	7.0
Hotels	31	81	0.5	0.9
Transport and Communications	93	172	1.6	2.0
Miscellaneous services	105	190	1.8	2.2
Government services	422	507	7 .1	5.9
All workers	**5926**	**8606**	**100**	**100**

Source: Table 3.1 and UBOS, "Woksheets on GDP", September 2003 (unpublished).

An examination of sector shares in a little more detail is provided in Table 3.2. This shows that agriculture's share rose slightly, and that of manufacturing fell slightly. The shares of all the service sectors rose, but that of government services fell sharply. The relative decline in government services probably reflects the sharp reductions made in staffing as part of the restructuring undertaken by the government. The general rise in services, on the other hand, is not unexpected in a country undergoing economic development.

Looking at the growth of work force and comparing it with that of GDP at factor cost, we find that the work force increased by 45 per cent while real GDP at factor cost grew by about 40 per cent. The slower growth of GDP in relation to work force was particularly marked in the A sector (see Table 3.3). The share of the A sector in GDP fell from 60 per cent to 43 per cent, while its share in the work force hardly changed. At the same time GDP growth outpaced work force growth in the I sector: GDP rose from 14 to 19 per cent, while the corresponding share to the work force remained around 5 per cent. In the case of the S sector, GDP rose from 36 to 38 per cent, while its work force share remained around 18 per cent. Hence, in terms of relative output per worker, as Table 3.3 shows, the A sector saw a sharp relative fall, and the I and S sectors fairly sharp relative rises.

Table 3.3: Sectoral Shares in Work Force and GDP and Relative Output per Worker, 1992-93 and 1997

SECTOR	**1992-93**	**1997**
SECTOR A		
%share in work force	76.7	77.0
%share in GDP	59.6	42.8
Relative output per worker	0.66	0.56
SECTOR I		
% share in work force	5.3	4.9
% share in GDP	13.6	19.2
Relative output per worker	2.57	3.92
SECTOR S		
Share in work force	18.0	18.1
% share in GDP	35.8	38.0
Relative output per worker	1.99	2.10
AGGREGATE		
% share in work force	100	100
% share in GDP	100	100
Relative output per worker	1.00	1.00

Source: See Table 3.1.

3.2 Employment elasticities

When we compare GDP growth with that of the work force, we find that while GDP in the A sector increased by 19 per cent, the work force rose by 46 per cent. This means that GDP per worker in agriculture actually fell. In the I sector, GDP grew 98 per cent while the work force increased by about 35 per cent. In the S sector, GDP increased 46 per cent while employment grew by nearly 48 per cent. Hence the I sector saw a rise in GDP per worker and the S sector, a slight fall. While bearing in mind that the work force figures do not necessarily relate to full time employment through the year and that all the figures have to be taken as approximate, it is nevertheless clear that the 1992 to 1997 period saw economic growth accompanied by labour absorption. In the case of the A sector this appear to have led to an absolute decline in output per worker.

The relationship between output growth and employment growth is best expressed in terms of the relevant elasticities. In this section we report on estimates of arc elasticities of employment expansion with respect to output growth. These estimates, presented in Table3.4 below, are based on the GDP at factor cost figures and the work force estimates used in Table 3.3.

Table 3.4: Sectoral and Aggregate Employment Elasticities 1992 to 1997

Sector	Elasticity of Employment with respect to Output
A	2.46
I	0.35
S	0.94
Aggregate	1.13

Source: See Tables 3.1 and 3.3.

Between 1992 and 1997, the overall elasticity of employment with respect to output was about 1.1. The A sector and the S sector, to a lesser extent, are responsible for this high overall elasticity. The high labour absorption by the A sector is reflected in an elasticity of 2.5 and that of the S sector in an elasticity of 0.9 On the other hand, the I sector had a relatively low elasticity of 0.4. While evidence for the post 1997 period has comparability problems and does not lend itself to a similar analysis, it cannot be assumed that the employment elasticities remained at the levels shown in Table 3.4 after 1997. In particular, agriculture may not have been able to keep absorbing workers and industry and services may become more labour-absorbing in response to new policies and programmes and with the end of the policy of downsizing of government employment.

Employment elasticities may not be very reliable as the employment estimates are based on a rather inclusive concept of work and one person reported to be working is not the same as a person-year of full-time work. The problem is most acute in agriculture where considerable underemployment is known to exist, but it not entirely absent in the other two sectors, especially in their informal components. An attempt is therefore made to measure the employment elasticities in manufacturing establishments for which data are available for 1992 and 1998 from UBOS and reported in a recently published ILO study.[9] This covers 119 manufacturing establishments in 1992 and 123 manufacturing establishments in 1998, employing 113 and 119 thousand workers respectively. The details are provided in Table 3.5 below.

[9] ILO, Jobs for Africa Programme and Area Office for East Africa: *Investment for Poverty Reducing Employment in Uganda,* November 2002, Table 2.10.

Table 3.5: Elasticities of employment with respect to output between 1992 and 1998, selected manufacturing establishments

Processed milk	0.27
2. Edible oils and soap	0.76
3. Wheat flour	10.40
4. Sugar	-0.76
5. Sugar confectionery	0
6. Other food products	-0.15
7. Uganda Warangi	-0.83
8. Beer	-0.03
9.Soft drinks	0
10.Cigarettes	4.7
11.Cotton fabrics	-5.9
12 Blankets	1.2
13 Fishnets	0
14. Leather	-0.36
15. Footwear	-0.14
16.Paper and Paper products	0.10
17. Foam products	0.24
18. Paints	0.53
19. Oxygen and acetylene	2.96
20. MV batteries	-0.02
21. Cement	0.04
22. Blocks, bricks and tiles	-0.02
23. Steel and its products	-0.38
24. Corrugated iron sheets	7.89
25. Cables	0.49
26. Toothbrushes, plastics and ball pens	-10.00

Source: Elasticities calculated from UBOS primary data reported in ILO: Investment in Poverty Reducing Employment, November 2002, Table 2.10.

Looking at the sectors which are large in terms of output and employment, edible oils and soaps had high and positive employment elasticity, but both employment and output had declined. Sugar had a high and negative elasticity of 0.76, a considerable increase in output being accompanied by a sharp decline in employment. Other food products had a low but negative elasticity, as did beer. Soft drinks had an elasticity of about zero. Cotton fabrics had a very large negative elasticity of -5.9, as employment plummeted alongside a modest output increase. Another fairly large sector, cement, had elasticity near zero, as did blocks, bricks and tiles. Steel ingots and products had negative elasticity of 0.38. Surprisingly, corrugated iron sheets had a phenomenal elasticity of 7.89, due to a massive increase in employment accompanying a modest expansion in output. In general, the reported employment elasticities are often negative for the larger sectors of activity and the overall picture is of output expansion not accompanied by employment growth, in fact accompanied in several cases by employment decline. If these estimates are any guide, in the absence of appropriate policies, manufacturing growth after 1998 is not likely to have created much employment.

Another sector for which some useful information is available on its employment-creating capacity is labour-based road works. According to a study by Gary Taylor and Bekabye on employment creation through the labour-based road works[10] sub-sector, the overall use of labour-based methods created 3 times as many jobs as equipment-based methods due to the 'multiplier' effects. Furthermore, labour-based methods generate about two times more Gross Domestic Product (GDP) through indirect effects than equipment-based methods, and although the direct benefit of labour-based methods on public revenue (taxes, duties, etc*)* is smaller than that of equipment-based methods, this is more than offset once indirect benefits are included.

Uganda has devoted a significant share of its public investment expenditure to road construction and continues to do so at present. Roads and works accounted for about 4.3 per cent of the allocation of public funds in 1994-95 and by 2001-02 it has risen to 9.3 per cent. It is not, however, clear that all this work is being done in a manner which would enhance employment creation. The use of labour-based methods could significantly add to employment creation and poverty reduction. If the country is to exploit these potential benefits, a significant shift to the use of more labour-based methods for construction is indicated. The implications for Uganda's macro-economic framework of these results are compelling. Labour-based methods generate more income to households, increase GDP faster and have a strong stimulus on local private investment.

Table 3.6: Financial and economic comparison of labour-based methods and equipment-based methods for feeder road rehabilitation in Uganda

	Labour-based methods	Equipment-based methods	Difference
Average Financial Cost per km ($)	8,000	9,770	+22%
Average Economic Cost per km ($)	5,080	8,150	+60%

Source: Gary Taylor and M. Bekabye, *An Opportunity for Employment Creation: labour-based technology in Raodworks-The macro-economic Dimension*, ILO, Geneva, 2000.

The Gary Taylor study illustrates that the greater use of labour-based methods has a high potential for creating productive employment both directly and indirectly. Through a policy of greater use of labour-based methods, households would have increased incomes, which would enable them to afford the basic requirements for their livelihoods. Since greater use of labour-based methods also provides a stronger stimulus to the local economy, this would also lead to increased economic growth with the accompanying improvement in the national poverty trends. Strong government policies together with a reform of the regulatory

[10] Gary Taylor and M. Bekabye, *An Opportunity for Employment Creation: labour-based technology in Raodworks-The macro-economic Dimension*, ILO, Geneva, 2000.

framework are going to be needed if Uganda is going to significantly tap the potential socio-economic benefits of more labour-based methods.

3.3 Links between Employment and Poverty

Surveys in Uganda do not cross-classify employment and unemployment of individuals by the average personal consumption expenditure of the household to which the person belongs. This would have enabled a much more thorough analysis of the links between poverty and employment and unemployment.

It is, however, possible to look at poverty in relation to the employment sector of the head of the household. It carries the unverified assumption that most, if not all, working household members are in the same sector as their head of household. The results are reproduced from Table 2.6 in the previous chapter and provided as Table 3.7 below.

The results show that household heads engaged in food production tend to have a high percentage that are poor, although, it must be noted, that the percentage has fallen sharply between 1992-93 and 1999-2000 from 64% to 45%. This decline probably did not continue to occur in 2002-03, but we cannot confirm this in the absence of a separate figure for food crops. Declines in poverty percentages are much sharper for those engaged in cash crop production and non-crop agriculture. However, in the case of cash crops some increase may have occurred between 1999-2000 and 2002-03.

Most of the other categories appear to have fairly low poverty incidence. Trends for the category of those who are not working are very difficult to interpret as the data relates to heads of households which may have working members. Also, the really poor households cannot afford to remain out of work and its members may end up taking any work that is available, including that which is poorly remunerated. Hence, those reporting as not working are not necessarily poor, while those in such sectors as food crop production might be facing heavy underemployment and low earnings. Open unemployment is a luxury that the really poor may not be able to afford.

Table 3.7: Percentages of Household Heads below the Poverty Line by Sector, 1992-93 to2002-03

Sector	1992-93	1996-97	1999-2000	2002-03
National	***55***	***49***	***35***	***38***
Crop agriculture				50
Food crops	64	62	45	
Cash crops	60	46	34	
Non-crop agriculture	55	40	41	34
Mining	32	74	43	26
Manufacturing	44	27	25	28
Public utilities	34	11	..	12
Construction	36	35	23	23
Trade	25	20	13	17
Hotels	26	19	17	21
Transport &communications	32	15	15	18
Miscellaneous services	27	28	18	28
Government services	36	30	17	13
Not working	58	62	44	38

Sources: Appleton in Reinikka and Collier (2001), Tables 4.12 and 4.13, and UNHS 2001 and 2002-03.

UPPAP (2003) also stressed another dimension on poverty and employment. In urban areas, people emphasized that poverty is characterized by the escalating unemployment and poor wages for those who are employed. Unfortunately very little data is available on wage rates which can be used for analysis of changes over time. Some data on wage rates has been collected in the UNHS 1999-2000. This relates to wage rates per day in the major regions for agricultural and non-agricultural wages and for men and women separately. They point to large gender differentials and to the fact that the Northern Region tends to have much lower wage rates, reflecting, no doubt, the difficult economic situation there.[11]

In the case of unemployment, the analysis has to be restricted to 1997, when the Pilot Labour Force Survey was done. The figures relate to persons in the labour force who are not working. This data has been analyzed in the ILO report, *Investment for Poverty Reducing Employment in Uganda.*[12]

The main findings in the above report are that the unemployment rate was 7.4 per cent, with the rural rate being lower, 5.1 per cent, and the urban rate being much higher, 21.7 per cent. Gender differences appear to have been small: the unemployment rate for men was 6.7 per cent and for women, 7.0 per cent. Kampala had a very high unemployment of 31 per cent. The Northern Region had reported a low rate of unemployment of 3.9 per cent. In this

[11] Uganda National Household Survey, 1999-2000, "Report of the Community Survey" (diskette) January 2001, Table 1.26.

[12] See pages 181-188 of the above report.

instance, and in general, the reported rates, which relate to open unemployment, do not appear to reflect poverty differentials or even the real situation in the labour market.

3.4 Concluding remarks

The evidence on employment is limited and not comparable beyond 1997 and links with growth and poverty are difficult to conclusively establish. Nevertheless, it is clear that the A sector managed to absorb much of the increase in numbers entering the labour market up to 1997. Industry, on the other hand, tended to show low employment elasticity. It appears that road construction has the potential to create considerable employment, provided labour-based technologies are used. Given that agriculture absorbed much of the growing additions to the labour force, it is not surprising that food production is the activity where the poor appear to be concentrated. The remarkable progress in the cash crop sector has not been matched by developments in food production and the most recent data suggests that 50 per cent of households, with heads engaged in crop production, are below the poverty line.

IV Some Features of Growth and Poverty Reduction in Uganda

The steady reduction over time in the percentage below the poverty line over the 1990s marks Uganda out as an important example where this happened through recovery from a long period of civil war and disorder and a period of economic growth. The success must be attributed to the adoption of policies and programmes which enabled economic growth to take place in a manner that was poverty-reducing. The process of reform of the economy, combined with developments in the world market, made it possible for the economy to grow, drawing in relatively poorer farmers and others into the process. Government expenditure also played a positive role. However, not all parts of Uganda shared in the sharp decline in poverty, and the North in particular continues to have a high proportion below the poverty line. The start of the new century appears to have seen a setback to poverty reduction. Evidence for the most recent period, 2000 to 2002, suggests that the process has stalled. We examine below the role of the establishment of law and order, of agriculture and exports, of government expenditure patterns and regional variations in explaining the Ugandan experience.

4.1 Return of Law and Order

The period from about 1972 to 1986 was marked by a breakdown in the political and socio-economic system due to civil wars and chaotic and dictatorial rule. This resulted in the destruction of productive assets, diversion of resources towards the military and away from development, widespread uncertainty, disruption of markets and information flows and heightened risk, making private economic actors less willing to invest in the production sectors. There was also the flight of capital and enterprise, including that of the expelled expatriate Asian community. Widespread physical and economic insecurity was accompanied by: arbitrary exactions by individuals and groups holding power or with arms at the local level; lack of protection for private assets including land, cattle and produce; lack of credit sources and capital; poor infrastructure and communications; and, little investment in education, health and social services. Several of theses obstacles to productive participation in economic activity were removed by 1992.

The return of law and order after 1986 helped to create an enabling environment for economic growth. It resulted in a return of capital and enterprise and started the process of recovery. Several important achievements were recorded. The demobilization and reintegration of combatants was achieved. Public spending was drastically reordered and expenditures were progressively directed towards infrastructure and education. The tax system and the banking system were reformed. After 1992, programmes to secure the return of capital began to work, especially as investment approval procedures were simplified, macroeconomic stability was achieved and economic liberalization measures began to have an impact. Trade, particularly exports, was liberalized, export duties on products like coffee were eliminated and the marketing system was deregulated. Large numbers of state enterprises were privatised. With the reforms private foreign capital and foreign aid began to flow in.

As law and order and public security were restored and the rule of law established, the measures for deregulation and promotion of freer markets, the elimination of export taxes, investments in transport, communications and infrastructure[13], reorganization of banking and credit, investments in education, health and social services and other measures made it possible for the poor to take advantage of new market opportunities alongside other, better-off, groups. Hence, the recovery process was accompanied by a sharp reduction in poverty. Agriculture was a major beneficiary of the developments up to 1992 and many small holders were able to benefit from the new environment for economic activity including foreign trade.

4.2 Agriculture and Exports

Uganda was predominantly rural with about 88 percent living in rural areas. Most rural households were engaged in agriculture. Agriculture was carried out mainly in small farms. Available estimates indicate there are about 3 million small-holder households in rural areas that have crop production as their predominant activity, followed by livestock keeping and fishing.[14] In terms of sector of household heads in 1992, food crop, cash crop and non-crop agriculture (which together accounted for 73 per cent of the population) had 64, 60 and 55 per cent respectively under the poverty line.[15] Hence agriculture was large and had a large number of relatively small producers, many of whom were below the poverty line. Growth in agriculture had, therefore, the potential to significantly impact on poverty.

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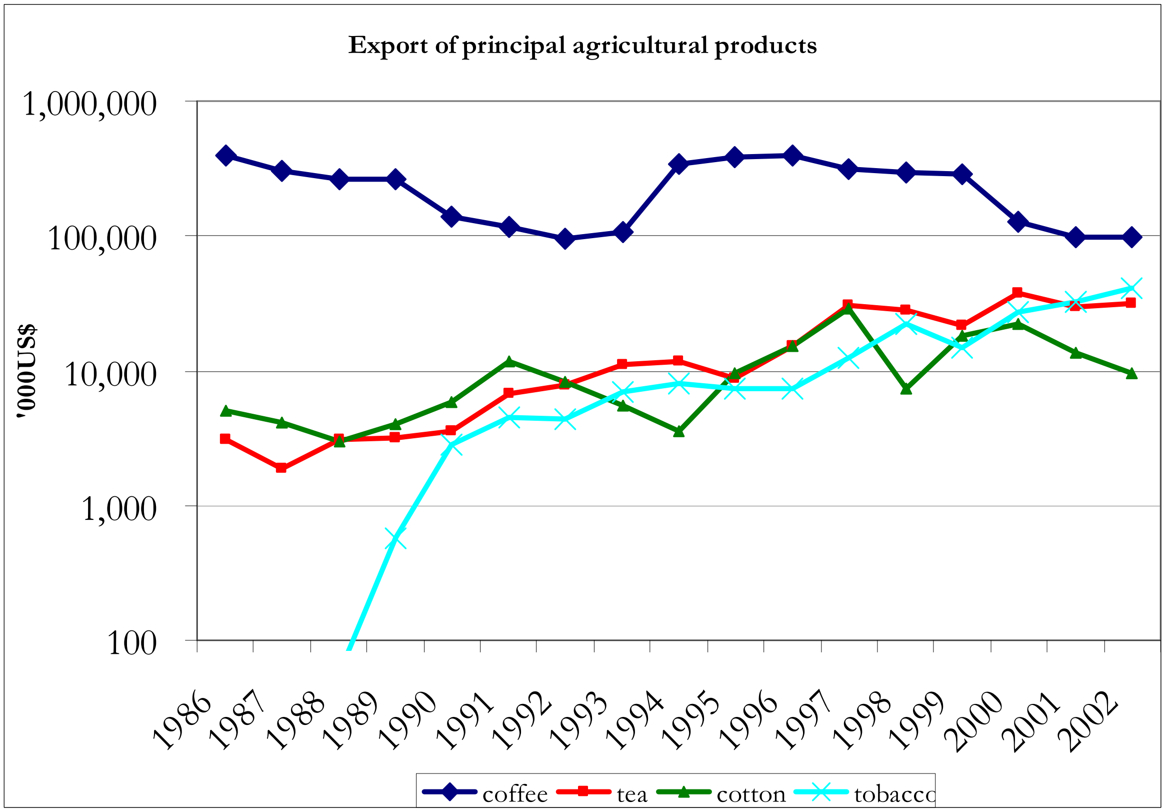
[13] During the 1990s, about 38 per cent of public expenditure was devoted to construction, buildings and roads. See ILO*, Investment for Poverty Reducing Employment in Uganda*, Dar Es Salaam, 2002, p. 37.

[14] ILO: *Investment in Poverty Reducing Employment in Uganda*, Dar es Salaam, November 2002, p.82

[15] See Simon Appleton, "Changes in Poverty and Inequality," Table 4.12, in Ritva Reinikka and Paul Collier (eds) *Uganda's Recovery: the Role of Farms, Firms and Government*, Washington DC, 2001. These estimates are not strictly comparable with the estimates given in Table 3.6 above, although both are based on data collected by UBOS surveys..

Figure 4 shows the trends in exports of Uganda's four major crops viz., coffee, tea, cotton, and tobacco.

Figure. 4: Exports of Principal Agricultural Produce



In the case of coffee the impacts of deregulation and improved access to domestic and world markets was most marked. Export taxes were eliminated in time to take advantage of a boom in the world coffee market which lasted until the mid-1990s. As a result of reforms to coffee marketing, the share of Ugandan farmers in the export price of robusta coffee increased from 42 to 63 per cent between May 1991 and June 1997, in the case of arabica coffee, the increase was from 39 to 65 per cent and for tea from 29 to 37 per cent.

Coffee was the pre-eminent cash crop, accounting for the bulk of the area under cash crops and for about 70 per cent of all exports until 1995-96. The price of coffee exports rose from US$ 0.86 per kg. in 1991-92 to a peak of $ 2.55 in 1994-95, and continued to be high in 1997-98. [16] Uganda was well positioned to take advantage of this fortuitous development – -a tripling of the export price -- and it is likely that the beneficiaries included many of the relatively poor, who grow coffee on small farms. A decomposition exercise suggests that about a half of the reduction in poverty between 1992 and 1995-96 could be attributed to improvements in the condition of cash crop farmers.[17]

The production and export of many other agricultural or rural products expanded in the 1990s and this probably also benefited the poor. These include fish, maize, hides and skins,

[16] Appleton, op cit, p. 109.

[17] Appleton, op. cit. p 111.

and high value horticultural crops. Coffee accounted for about 58 per cent of exports in 1997-98, but the share declined to 43 per cent by 1999. From about 1999, exports in general have been affected by the volatility of international prices of primary commodities as well as by bad weather and rising oil prices. Export prices for three other traditional items, cotton, tobacco and tea also fell from 1998-99.

Hence the period from 1992 until about 1996 was marked by large income increases accruing to coffee growers and, to a lesser extent, to producers of cotton, tobacco and tea. Many beneficiaries were small producers below the poverty line. As export-based incomes rose in the countryside, not only did they reduce the poverty of many small producers, they are also likely to have provided, through increased spending by these producers, more income-earning opportunities for the rural poor who were not engaged in the exported products.

After about 1997, the export prices of all these traditional products declined and probably some of the earlier gains in terms of poverty reduction were lost. This setback was only partially compensated by the growth of non-traditional exports. Between 1998-99 and 2001-02, coffee exports declined by $222 million, while non-traditional exports rose by $145 million. The major commodities in the rise of non-traditional exports from $251 million to $300 million were fish and fish products, maize, hides and skins, and flowers

The period up to about 1996 had been marked by economic growth accompanied by structural change as well as a reduction in poverty and inequality. After this, growth slowed down, and inequality began to increase. Recent evidence suggests that poverty levels have risen, albeit with a time lag, from 2000. This slowdown may be associated with the end of the coffee boom and the emergence of adverse movements in the country's terms of trade, from 1998-99.

4.3 Public Expenditure

The government has been using the medium term expenditure framework to allocate resources and align priorities in line with the objective of poverty reduction. Within this framework, the government has created a Poverty Action Fund (PAF) to channel expenditure, especially donor funds, to directly poverty-reducing public services, including primary education, primary health care, agricultural extension, feeder roads, water and sanitation and law and order. The impact of this mechanism to shift expenditures towards poverty reduction can be judged by the fact that the share of PAF in total spending rose from 17 per cent in 1997-98 to 31 per cent in 2000-01.[18]

Looking at the composition of public expenditure, the impact has been principally in raising the share of roads and works from 4.9 per cent in 1997-98 to 8.2 per cent in 1999-2000. This is likely to have created a considerable volume of employment and through that route have had an impact on poverty. It may have also improved access of the poor to resources and markets. It is more difficult to assess the impact on poverty of a significant reduction in the share of public administration from 24.9 to 20.5 per cent over the period as we do not know the status of those who gained or lost jobs or faced increases or decreases in earnings.

[18] Ministry of Finance, Planning and Economic Development: *Uganda Poverty Status Report*, 2001, pp.8-9.

4.4 Regional and Spatial Dimensions

The decline in the incidence of poverty between 1992 and 2000 and the increase between 2000 and 2002 were not uniform over the country. The experience of the different regions was significantly different, reflecting the impact of events and conditions prevalent in different parts of the country.

Poverty proportions were much higher in rural than in urban areas. In both there was a sharp decline: from 59.7 and 27.8 per cent in rural and urban areas respectively in 1992, to 42.7 and 14.4 per cent respectively in 2002-03 (see Table 2.3). As urban poverty proportions are generally lower than rural proportions, and as poverty proportions have declined in both segments, the increase in the weight of urban sector over time would have accentuated the decline in poverty at the aggregate level.

There is considerable variation in the levels and trends in poverty incidence in the different regions of Uganda. In 1992-93, the Central region, and to a lesser extent, and Western region had levels of poverty lower than the national average, while the Northern and Eastern regions had levels above the national average. In 2002-03, the poverty incidence was less than in 1992-93 and again the Central and Western regions had below national average levels, while the Northern and Eastern regions had above average levels.

Northern Uganda in 2002-03 not only had a much higher poverty proportion than the national average, but the proportion actually rose after 1997, while it continued to fall for the country as a whole until 1999-2000. In this region the poverty proportion declined from the high level of 71 per cent in 1992-93 to 59 per cent in 1997-98, only to rise again to 65 per cent in 1999-2000 and fall slightly to 64 per cent in 2002-03. It is also worth noting that in 1999-2000, about 44 per cent of the poorest 20 per cent of Ugandans lived in the North.[19]

The pace of poverty reduction, particularly in Central Uganda, where the poverty proportion has been halved, and Eastern Uganda, where the proportion has dropped from a half to a third, may be difficult to maintain over time. Sharp reductions in poverty are needed in Eastern Uganda, but clearly the high level of poverty in Northern Uganda, 64 per cent, has to be addressed on a priority basis if Uganda hopes to continue recording aggregate declines in poverty.

The problems of Northern Uganda are indeed complex and not easily addressed. The problems of this region include civil strife, insecurity, low levels of literacy and education, poor health and sanitation, and the presence of refugees from nearby conflict areas. The rise in poverty in Northern Uganda has been largely associated with two factors: the long-standing war and conflicts in the North since the late 1980s which have led to massive deaths, loss of property and internal displacement and the fall in price and area under production of the major commodities traded in the North, particularly cotton. The price of cotton more than halved between 1992 and 1999 as a result of the dismantling of government marketing boards. Apart from the disruptions and displacements caused by conflict and insecurity to production and the functioning of markets, other factors mentioned are “the

[19] The figure is from Uganda Ministry of Finance, Planning and Economic Development: *Challenges and Prospects for Poverty Reduction in Northern Uganda*, Discussion Paper 5, Kampala, March 2002.

harsh climatic conditions coupled with environmental mismanagement, corruption, low productivity, and inefficient service delivery."[20]

4.5 Concluding Remarks

The discussion in this section highlights the importance law and order and favourable trade conditions in making it possible for small holder agriculture to grow, thereby reducing poverty. Government expenditure policies also had a pro-poor bias which may have helped to create more employment in construction

V Modelling the Determinants of Poverty

In this section, we focus on modelling the determinants of consumption or poverty. In the process of modelling the determinants of poverty, an attempt will be made to identify and quantify links that can be established between consumption levels and selected socio-demographic characteristics relating to household size and composition, education and employment. The analysis here has the advantage of being based a single data set that permits us to link variables relating to the same set of sampled households. The dataset used in the estimation of the model is obtained from Uganda National Household Survey (UNHS) of 1999/2000, which was conducted by the Uganda Bureau of Statistics (UBOS).

5.1. Specification of the Empirical Model

Two approaches may be distinguished in modelling the determinants of poverty. The first approach could be described as directly modelling the determinants of poverty status (poor or not poor)[21].

We model the poverty status to be poor (as opposed to being not poor) as:

$$H_j^* = \beta' X + \varepsilon + u_j \qquad (1)$$

where j indicates the household number ; *X* are explanatory variables represents unobserved heterogeneity at the household level; and u_j captures transitory variation. We assume the standard normalizing assumption that $u_j \sim N(0,1)$. We also assume that the heterogeneity component is distributed normally, $\varepsilon \sim N(0, \sigma_\varepsilon^2)$.

The probability to be in a given poverty status for household *j* is:

[20] Uganda Ministry of Finance, op cit. p 35.

[21] Poor when consumption expenditure per day is defined to be below one US$ based on United Nations, 2003 Statistical Report (http://unstat.un.org). Individual countries do not necessarily adopt this line. Many, like Uganda. have their own nationally derived poverty lines

$$H_j = \begin{cases} 0 \\ 1 \end{cases}$$

if $H_j = 0$ (poor); if $H_j = 1$ (not poor)

The second approach to modelling the determinants of poverty levels is by taking the log of consumption at household level.[22] The simplest specification of such a model could be given as:

$$\ln(C_j) \quad = \quad \beta' X_j \quad + \quad \varepsilon_j \qquad (2)$$

Where C_j stands for per capita consumption of household j, X_j denotes a vector of household characteristics or other determinants of consumption, and ε_j is a random disturbance term, which is assumed to be normally, independently and identically distributed with mean 0 and variance σ^2.

The second step is to define poverty in terms of the household's per capita consumption level, where the poverty measure for household j can be estimated by:

$$\hat{P}_{\theta,j} \quad = \quad \left[\max\left(\left(\frac{Z - \hat{C}_j}{Z}\right), 0\right)\right]^{\theta} \quad , \quad \theta \geq 0 \qquad (3)$$

Where $\hat{P}_{\theta,j}$ is the estimated poverty measure of household j, Z denotes the poverty line and θ is a non-negative parameter taking integer values 0, 1 and 2. Aggregate poverty of a given population is simply the weighted mean of the above poverty measure, where the weights are given by households' sizes. When θ takes a value of 0 the aggregate poverty measure corresponds to the incidence of poverty or head-count index. Similarly, when θ assumes values of 1 and 2, the aggregate poverty measure corresponds to the poverty gap and the squared poverty gap indices respectively.[23]

The direct approach to modelling the determinants of poverty, using equation 1, which is adopted in this exercise, is popular and has often been used by researchers in the area of poverty analysis. The approach models the probability of household being poor by employing the probit model.[24] In the probit model, an attempt is made to allow for rural-urban heterogeneity by estimating separate models.

[22] The logarithm of consumption is estimated because its distribution more closely approximates the normal distribution than does the distribution of the consumption levels. In other words, this assumption implies that households' consumption level follows a lognormal distribution.
[23] These three measures of poverty belong to the Foster-Greer-Thorbecke (FGT) class, introduced by Foster, Greer and Thorbecke in 1984.
[24] See Mulat Demeke et al. p 39, for a discussion of the two approaches.

5.2 Selection of Explanatory Variables of the Model

The set of variables that is hypothesized to determine poverty status may be categorized into household and community characteristics. Among the set of potential determinants of poverty, an attempt is made to choose those variables that are not outcomes of poverty. For instance, variables such as current school attendance by children are omitted from the regression for the reason that such variables are outcomes, rather than determinants of being poor or non-poor. The set of determinants used may broadly be classified into the following categories:

Background characteristics

Included in this category are household size and its composition. Four age groups are distinguished: under 7 years, 7-17, 18-64 and 65 years of age and above. The number of adults in the age group 18-64 years is further split by gender as the marginal returns may differ. To allow for nonlinearities in the relationship between consumption and household size, a quadratic term (in household size) is introduced in the probit model. The other background characteristics of households are age and sex of the household head.

Education

Several measures pertaining to different levels and dimensions of educational attainment by household members are included in the regression. The number of adult household members who can read and write and the number of adult household members with primary or higher level of education are among variables hypothesized to influence consumption. Assuming that returns to male and female education may be different, the numbers of household members with primary or higher level of education is differentiated by gender.

Employment

Employment characteristics are related to occupations of household members. In this connection, two employment categories are distinguished: agriculture and those in service sector. To examine the hypothesis that multiple income sources may bring higher income and hence lower risks, a variable related to income diversification within households is included. This variable is constructed by counting the number of income earners of household members from different sources.

5.3. Estimation of the Model: Description of Dataset

The dataset used in the estimation of the model is obtained from Uganda National Household Survey (UNHS) of 1999/2000 was conducted by the Uganda Bureau of Statistics (UBOS). The sample size for households consists of 10,696 households. A total of 8,344 households were from rural areas while 2,352 households were taken from urban. All the four regions of the country were included in the study i.e Central, East, North and West.

The probit regression model of the determinants of rural poverty is estimated based on 8,311 rural households, while the determinants of urban poverty are estimated based on a sample size of 2,332 urban households. The major estimation issues faced related to some missing values and outliers in the data set particularly for adult equivalent real consumption per capita. Households whose consumption per capita is below shs 6000 (US$3) per month are also excluded, as it is impossible to survive on such low level of income. The data set was divided into poor and non-poor based on United Nations Statistical Report, 2003 where a poverty is defined in terms of a consumption expenditure for an individual of less than one US Dollar a day.

5.4. Results and Discussion

The initial parameter estimates were subjected to a limited pruning by deleting the interaction terms that are not statically significant at 10% level of significance. In addition, the interaction terms that were found to be statistically insignificant or collinear with other explanatory variables were also excluded from the regression model.

5.4.1. Determinants of Consumption and Poverty in Rural Areas

Table 4.1 presents the parameter estimates, z-values and 95% confidence interval for the rural determinants of real consumption per capita. For a cross-sectional data, the fit of the regression model is good, with R^2 of 0.1792. The statistical significance of the different variables varies widely; some are statistically significant at 5% level of significance while others are not significant even at 10% level of significance. Non-significant variables (at 10% level of significance) were retained for the reason that they are relevant for the purpose of policy simulation.

With only few exceptions, the signs on the variables are as expected, and the relative magnitudes are also reasonable. It can be noted that the dependent variable of the model is binary in nature and hence measures the probability of households being in a status below the poverty line.

(a) Background characteristics

Age and sex of household head were found to be highly significant at 5% level. Results from the model show that female headed households were more likely to be found below poverty levels compared to male headed households. Results also show that with increase in age of household head, the probability of eventually falling in the poor category is high. This result is more likely to be true if the household head becomes too old to provide for the family.

From the estimated probit regression model, it can be seen that there is a strong negative relationship between poverty status and the different age categories in the household. Results show that there is a negative relationship between children aged seventeen years and below. It is not surprising that estimated coefficient for children below seven years were found to be more negative than for children aged 7-17 years. This implies that an additional child aged below eighteen years is more likely to put the household into a poor status. These results seem to be plausible for later age groups have the possibility of providing some manpower for production, especially in the case of adult males between age group of 18-64 years.

The estimated coefficient of the quadratic term of the household size is found to be positive and statistically significant, suggesting a U-shaped relationship between consumption per capita and household size.

(b) Education

Among adult education variables, adult males who completed secondary education have a positive association with poverty status. This implies that educated adult male, are more likely to be found above poverty line. Results also show an abnormal pattern with the number of literate adult male and female associated with a negative coefficient.

(c) Employment and income sources

The probability of being above the poverty line was found to high, greater the number of income sources a family has. Results also show that persons employed in the agricultural sector, were found to be more likely to be associated with poor poverty status. However, the variable of those employed in service sector was found not significant at 5%.

(d) Regional differences

Results show big differences in poverty levels among the different regions. The Central region was found to be significantly different from the North, East and West regions, in that order.

Table 5.1 Determinants of Rural Poverty in Uganda

Poor/Not poor	Coef.	Std. Err	z	P>|z|	[95% Conf. Interval]	
Age of head of household	-.0053747	.0013136	-4.09	0.000	-.0079492	-.0028001
Sex of head of household	-.1669378	.0409393	-4.08	0.000	-.2471774	-.0866981
Persons 0-6	-.3495804	.0244913	-14.27	0.000	-.3975825	-.3015782
Persons 7-17	-.258725	.0231433	-11.18	0.000	-.3040851	-.2133649
Adults male 18-64	.1086653	.0440076	2.47	0.014	.022412	1949187
Household size squared	.0053396	.0014969	3.57	0.000	.0024056	.0082735
Employed in Agriculture	-.1088854	.0206882	-5.26	0.000	-.1494335	-.0683373
Employed in Service sector	-.0600429	.0901618	-0.67	0.505	-.2367568	.116671
Number of income sources	.108061	.0153159	7.06	0.000	.0780424	.1380796
Number of literate adult males	-.236985	.0568962	-4.17	0.000	-.3484995	-.1254706
Number of literate adult females	-.1222564	.0546923	-2.24	0.025	-.2294513	-.0150615
Number of adult males who completed primary education	-.1439013	.0849101	-1.69	0.090	-.3103221	.0225194
Number of adult males who completed secondary education	.2605732	.1090459	2.39	0.017	.0468471	.4742993
Number of adult females who completed primary education	-.2601318	.1355131	-1.92	0.055	-.5257325	.0054689
Number of adult females who completed secondary education	.1122604	.1738037	0.65	0.518	-.2283886	.4529094
Dummy for East	-.4032288	.0431359	-9.35	0.000	-.4877737	-.318684
Dummy for West	-.1205609	.0419396	-2.87	0.004	-.202761	-.0383608
Dummy for North	-1.14194	.0479554	-23.81	0.000	-1.235931	-1.047949
Male literacy * employment in Agriculture	.0536218	.0457227	1.17	0.241	.0359931	1432366
Female literacy * employment in Agriculture	.0949158	.0778203	1.22	0.223	.0576091	2474407
Male literacy * employment in service sector	.1224965	.1448388	0.85	0.398	-.1613824	4063753
Female literacy * employment in service sector	-.1067298	.3037533	-0.35	0.725	-.7020753	4886158
Constant	1.796095	.118151	15.20	0.000	1.564523	2.027667

Probit estimates Number of obs = 8311

Wald chi2(22) = 1508.40

Prob > chi2 = 0.0000

Log likelihood = -4579.7038 Pseudo R2 = 0.1792

note: Adult female 18-64 dropped due to collinearity

note: Persons 65 and above dropped due to collinearity

note: 0 Poor and 1 Not poor completely determined.

5.4.2. Determinants of Consumption and Poverty in Urban Areas

Table 4.2 portrays the results from the estimation of the urban model of the determinants of real consumption per capita. Note that variables that appeared to be insignificant are retained for simulating the impact of different policies on poverty and economic growth. However, compared with the case of rural setting, there is some marked difference in the variables found to be significant in urban setting.

(a) Background determinants

From the results, age and sex of household head were not found significant at 5% level of confidence. However, age was significant at 10% level and negative. Members within the household below age of eighteen were found to be negative and significant. As with the case in rural areas, increase in persons who are aged below eighteen, is more likely to push the household to a poor status.

(b) Education

Among the education variables, adult females who have completed secondary education level are more likely to be associated with non-poor status. This is contrary to the findings for the rural areas where the adult male were associated with non-poor status.

(c) Employment and Income Sources

The signs of the employment variables for the number of persons employed in the agriculture is negative. However, employment in service sector was not significant even at 10% level.

(c) Regional differences

As the case with rural areas, the Central region was found to pose a big difference from the North and East in that order. However, the variable for the West was found to be insignificant even at 10% level.

Table 5.2: Determinants of Urban Poverty in Uganda

Poor/Not poor	Coef.	Std. Err.	Z	P>|z	[95% Conf. Interval]	
Age of head of household	-.0066974	.0034469	-1.94	0.052	-.0134532	.0000584
Sex of head of household	-.1041309	.0882888	-1.18	0.238	-.2771737	.068912
Persons 0-6	-.2818808	.0348359	-8.09	0.000	-.3501579	-.2136038
Persons 7-17	-.0945171	.0291873	-3.24	0.001	-.1517232	-.0373109
Adults male 18-64	.1855634	.1307553	1.42	0.156	-.0707123	.441839
Household size squared	-.0004847	.0012524	-0.39	0.699	-.0029393	.00197
Employed in Agriculture	-.2254278	.0487368	-4.63	0.000	-.3209502	-.1299055
Employed in Service sector	-.0510564	.0938789	-0.54	0.587	.2350556	1329428
Number of income sources	.0198881	.0274767	0.72	0.469	-.0339652	.0737414
Number of literate adult males	-.1611214	.1412888	-1.14	0.254	-.4380423	.1157995
Number of literate adult females	-.0802552	.1425624	-0.56	0.573	-.3596723	.1991619
Number of adult males who completed primary education	-.0984006	.2198297	-0.45	0.654	-.5292589	.3324577
Number of adult males who completed secondary education	.0074594	.1186782	0.06	0.950	-.2251455	.2400643
Number of adult females who completed primary education	-.2511441	.2683889	-0.94	0.349	-.7771767	.2748884
Number of adult females who completed secondary education	.3766653	.1449953	2.60	0.009	.0924798	.6608508
Dummy for East	-.3308831	.0911944	-3.63	0.000	-.5096209	-.1521453
Dummy for West	-.0877647	.1030078	-0.85	0.394	-.2896564	.114127
Dummy for North	-.9680511	.0934091	-10.36	0.000	-1.15113	-.7849727
Male literacy * employment in Agriculture	.1234349	.0634074	1.95	0.052	-.0008414	.2477112
Female literacy * employment in agriculture	-.0708028	.1021855	-0.69	0.488	-.2710828	.1294771
Male literacy * employment in service sector	.0230992	.1563926	0.15	0.883	-.2834246	.329623
Female literacy * employment in service sector	.1208842	.4345624	0.28	0.781	-.7308424	.9726109
Constant	2.144891	.2141577	10.02	0.000	1.72515	2.564633

Probit estimates Number of obs = 2332
Wald chi2(22) = 292.62
Prob > chi2 = 0.0000
Log likelihood = -833.44212 Pseudo R2 = 0.1749
note: Adult female 18-64 dropped due to collinearity
note: Persons 65 and above dropped due to collinearity

5.5. Concluding Remarks

The modelling exercise highlights several important and strong relationships between social and economic variables and poverty. In rural areas, it appears that female headed households are more likely to be poor than their male counterparts. Again, older the household head, greater is the chance that the household is below the poverty line. More children in the household appear to be associated with poverty, as is belonging to an agricultural household. On the other hand, a more diversified structure of income sources for a household, or more the number of educated males it has, the less likely it is to be poor. In urban areas, poverty appears to be associated with larger number of children in the household and the presence of educated female members is associated with the household being out of poverty. The regional dimensions of growth and poverty are also important features. Future reductions in poverty will require more attention being paid to the northern region, where high levels of poverty continue.

V Main Conclusions

6.1 Main Findings

This paper examines the case of Uganda, where following peace and the restoration of law and order, it was possible through policies and programmes to liberalize the economy, link it up with world markets and create conditions where capital began to flow in again and domestic and international actors began investing in development. This process took place over the 1990s, though there is some evidence of deceleration after 1997. The first period 1991-92 to 1996-97 was marked by fairly rapid average rates of economic growth of a little under 7 per cent per year, with GDP per head increasing at an annual average rate of about 3 per cent. The second period, from 1997-98 to 2002-03, saw economic growth average about 5 per cent and per capita income growth about 2 per cent.

In terms of structural change again, the share of agriculture in GDP fell sharply between 1992 and 1997, and that of manufacturing rose sharply. Over the subsequent period, 1998 to 2002, there was very little change in the sectoral shares. In the case of the economically active population, between 1992-93 and 1997 there appear to have been little structural change, and comparable figures are not available for more recent years.

The percentage below the poverty line appears to have declined quite steadily between 1992-93 ands 1999-2000, from 55.7 to 35.1 per cent. However, the results for 2002-03 indicate a rise again in the poverty proportion to 38.8 per cent. The decline up to 1999-2000 occurred in both rural areas and in urban areas and in most of the regions, with the important exception of rural areas in the North, where poverty initially declined, but again rose after 1997-98. Insurgency and declining cotton prices help to explain why the North again saw an increase in the poverty proportion. The increase after 1999-2000 was in both rural and urban areas and in all the regions except the North where there was a nominal decline.

Inequality also declined between 1992 and 1997-98, but appears to have increased between 1997-98 and 2002-03. In fact, the national level of the Gini coefficient in 2002-03 is higher than it was in 1992-93 in respect of both rural and urban areas.

In terms of dimensions of poverty other than personal consumption expenditure, the evidence suggests that expansion in primary education was substantial between 1997 and 2002, but low retention rates were a serious problem. Several indicators of health status improved between 1991 and 1995, but appear to have since either deteriorated or stagnated. HIV/AIDS and malaria remain serious problems. Agricultural extension services still remain thin on the ground and credit in rural areas is still limited in availability. Environmental problems have also surfaced in the form of declining soil fertility, deforestation, rangeland degradation and decline in fish stocks.

Based on estimates for sectoral GDP and employment, arc elasticities of employment expansion with respect to output growth have been obtained. While overall elasticity appears to be around one, the elasticity for the A sector is extremely high, and the elasticities for the I sector is low. This indicates that agriculture has been able to absorb large amounts of labour over the process of output growth. It should be noted that the measured elasticity does not take adequate account of the fact that many who work in agriculture may not be working at full intensity.

Estimates for elasticities in manufacturing are probably more reliable. In several lines of production the elasticities turn out to be negative between 1992 and 1998: output expansions have led to employment declines. It is not surprising then that manufacturing growth has not generated much in terms of work opportunities.

Among other sectors, road construction is a potential employment spinner and it is significant that 9 per cent of public funds have been invested in this activity in 2001-02.

While it is not possible to fully map the relationship between employment, unemployment and poverty, it is clear from data on poverty by employment sector of the head of household that food crop producing households were often poor in 1992-93 and many continue to be poor in 1999-2000 and 2002-03. This is perhaps a reflection of the fact that agriculture, particularly subsistence agriculture run as a family enterprise is where many new entrants to the labour force go, when there are few jobs available elsewhere in the economy. In the case of cash crop households there has been a remarkable drop in the poverty proportion, as indeed in most other employment sectors.

Some data are available for unemployment but the reported rates probably do not reflect poverty as the really poor cannot afford to be unemployed for long periods of time. Data on wage rates are, unfortunately, not available on a comparable basis over time. This is a major gap in the information system for movements in wage rates can be a useful barometer of the changing employment situation.

6.2 Implications of the Findings

On the basis of the major findings of this paper, some of its implications to development policy in Uganda may be briefly noted.

There is little doubt that sound macro-economic policies and a stable economic framework were important factors responsible for the success in growth and poverty reduction. The success in poverty reduction was due in part to favourable conditions in the world economy for Uganda's coffee production which had just emerged from a regime of controls and limitations on trade and marketing. This favourable conjuncture of circumstances may not occur again.

In the future, the constraints on the food crop sector may have to be more directly addressed. Also economic growth has to lead to productive employment opportunities outside subsistence agriculture. Unless this happens, the process of poverty reduction may be difficult to sustain. This requires greater employment creation in the short and medium term in both private and public investments, which, in turn, calls investments that intensively utilize local resources, including labour, and have strong multiplier effects on the domestic economy. Policies and strategies that promote intensive utilization of local resources would create employment especially for the poor, and would be complementary to other poverty reduction efforts.

The problems caused by insecurity and insurgency in Northern Uganda are having an adverse effect on growth, poverty reduction and employment expansion in that region and, to some extent, on the national average. A solution to the problems of this troubled region is an urgent necessity.

There is need to underscore the importance of livelihood policies and programmes that increase access of the poor, especially men and youth, to productive land and affordable credit. There is also need to address related issues such as production skills including entrepreneurship.

While trade liberalization has certainly been an important factor in promoting growth, there is a need to address the potential negative effects on the poor from trade liberalisation and privatisation such as in the case of tobacco farmers in Arua and elsewhere.

There is a case for looking more closely at the availability of traditional social safety nets, which may be weakening and the possibility of strengthening them and also developing new systems of social protection in the face of the impacts of the volatile world economy.

More generally the problems of rapid population growth, inadequate spread of education, lack of diversification in agriculture and the slowing of the process of structural change may be responsible for limiting the achievements in terms of poverty reduction in

Uganda. Of course, the progress made in spreading education and some diversification in income sources may have helped to reduce poverty

There is considerable scope to strengthen the information system by collecting more data on the links between poverty and employment at the household level. In fact, more frequent and fuller labour force surveys are needed. A system of data collection on going wage rates in selected locations for particular categories of skilled and unskilled workers is urgently needed. This will provide early warnings of possible deteriorations in the economic system, long before the results of surveys become available.

Finally, this paper points to the need to look at growth, poverty and employment trends and patterns at the regional or sub-national level. This is an area where not only are more data needed, but also much more analysis. Many of the policies and programmes that are needed may have to be directed at the Northern region, where adverse trends are beginning to manifest themselves.

Annex

Policy Regimes since the 1980s

Some features of the policy regimes that were in operation in Uganda over the period since the 1980s are discussed in this annex. We look at the structural adjustment programme which was in operation from 1986 to 1997 and the PEAP policy regime operative since then. The plans for the modernization of agriculture and the programmes to promote micro-finance are also briefly reviewed.

1. Structural Adjustment and Economic Recovery Programme 1986-97

Structural adjustment in Uganda[25] began after the 1980 debt crisis and was intensified after 1986 on the capture of state power by the National Resistance Movement /Army (NRM/A) of President Museveni. The real starting point of structural adjustment in Uganda was the introduction in 1987 of The Economic Recovery Programme (ERP).

The Economic Recovery Programme (ERP) aimed at financial stabilization, structural reforms and economic transformation. Structural adjustment in Uganda after 1986 was a strategy to improve performance. Its primary agenda was to control inflation by limiting public spending within available resources, while increasing resources to key socio-economic sectors. Annual headline inflation was reduced from 27.7% in 1991 to 1.9% in 2001 as shown in Table A.1. Headline inflation is chosen because it encompasses all goods and services consumed by a household.

Table A.1 Annual Inflation Rates

Base: September 1989 = 100	
Annual Calendar Year	**Annual Percentage change**
1990	
1991	27.7
1992	54.5
1993	5.1
1994	10
1995	6.6
1996	7.1
1997	8.2
1998	0.6
1999	6.8
2000	3.4
2001	1.9

Source: UBOS, Statistical Yearbook, 2003

[25] V.Corbo and Sung (1992) describe structural adjustment narrowly as policies for short-term adjustment designed to stabilize the economy in the 1980's. They also view it broadly as an all-encompassing process of reform in the long-term development of a nation.

The fiscal stance was supported by a number of reform policies, which include economic liberalisation and privatisation. In the financial sector, the management of the exchange rate has been left to the market forces, with limited Bank of Uganda intervention. Foreign exchange market liberalization provided incentives to major sectors of the economy. Other reforms in the monetary sector included the removal of controls on interest rates to end financial sector repression, and the liberalization of the current and capital accounts to facilitate free flow of capital.

The implementation of ERP (1986-1990) resulted in significant progress in most sectors of the economy: construction and manufacturing as well as mining and quarrying expanded due to heavy rehabilitation and renovations in the manufacturing sector. Non-monetary GDP, a proxy for the subsistence economy, declined over the period, reflecting progressive monetisation of the economy; Real GDP increased to 8 per cent per year during the period though it was later to decline to 4.4 per cent (2002/2003). Poverty eradication began to be seen as a major national goal and all the above were efforts to reduce poverty.

By 1990, Uganda and Ghana were IMF models of reform and this was mainly due to devaluation of currency to bring competitiveness to exports as well as encourage imports, control of inflation, revision and liberalisation of the foreign exchange and interest rate policies, and removal of trade restrictions, particularly the policy of trading in agricultural produce outside the framework of marketing boards. Other reforms included privatisation of State-owned enterprises to increase productivity as well as efficiency, strict budgetary discipline at local and central government levels, accompanied by downsizing of public services to reduce costs.

According to Uganda's Vision 2025, the success of the SAPs has however been limited by several factors;

i) Uganda's export base is narrow and this translates into a poor balance of trade and current accounts position. Similarly, the existence of protectionism and anti-export bias results in loss in efficiency due to distorted allocation of resources

ii) The structural adjustment policies themselves have at times been conducted unscrupulously. The privatisation process provides a good example. As Vittorio and Sung (1992) note, for success of such processes, there is need to privatise without privilege.

iii) The monetary policies themselves have had ambiguous effects. Improper application led to negative real interest rates initially with rigid financial rules, administrative controls and poor macro-economic environment. The collapse of sonic banks in the recent years was a direct repercussion of this.

iv) Serious inadequacies of infrastructure, especially in rural areas, continue to exist. Social services are poor and competitiveness and capital formation are low. 35 per cent of Ugandans live below the poverty line and 85 per cent of these live in villages. Notably, SAPs have made women, especially the rural dwellers worse off than men as well as their counterparts in town.

v) Slow adaptation to science and technology, both as a result of poverty as well as due to a resistant culture of conservatism, in the functioning of state agencies.

It was generally agreed and also from the foregoing, that SAPs were not as successful as was hoped. In particular the problem of widespread poverty had to be directly addressed. A Poverty Eradication Action Plan was devised to address these inadequacies.

2. PEAP Policy Regime 1997-todate

The intensification of poverty reduction initiatives in the mid-1990s culminated into the formulation of the Poverty Eradication Action Plan (PEAP)[26]. The PEAP embody Uganda's framework for poverty eradication. The overall objective of the plan is to eradicate poverty in the coming two decades by stabilizing the macro-economic framework, improving the incomes and the quality of life of the poor and strengthening governance and security in Uganda. Government has planned to reduce the proportion of people living in absolute poverty to 10 per cent of the population by 2017.

The first step towards implementation of PEAP was the review of the Public Investment Plan (PIP) to re-orient public spending towards the Plan objectives. The key policy instrument that has been used to switch resources towards strategic poverty reduction programme areas[27] has been the Medium Term Expenditure Framework (MTEF), characterised by a sector-wide approach to public sector planning and budgeting, where there have been efforts to switch public spending towards poverty eradication programs. Poverty eradication focuses on transforming poor farmers, men and women, from producing predominantly for the household to producing for the market.

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[26] Published in June 1997 as a final draft,

[27] These programme areas include agricultural extension services; rural roads; primary health care; primary education; rural water supplies; law and order; and improved accountability and transparency.

Table A.2: Sectoral Allocation of Public Funds (%)

Sector	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/2002
Security	19.2	18.8	18.3	16.4	20.7	15.3	15.2	15.7
Roads and works	4.3	4.3	6.8	4.5	6.1	8.3	8.9	9.3
Agriculture	2.6	1.5	1.4	1.0	1.0	1.5	1.4	1.5
Education	19.5	18.6	21.8	24.1	26.4	26.9	27.6	28.6
Health	7.9	9.8	7.4	6.8	6.3	6.5	6.4	6.6
Law and Order	8.8	9.8	8.7	8.8	7.9	6.8	6.8	7.0
Econ. Functions & Soc. Services	9.2	6.2	6.5	5.7	4.0	7.6	7.6	6.7
Public Administration	20.7	22.6	22.1	25.5	21.2	20.0	19.2	18.1
Interest payments	7.8	8.4	7.0	7.1	6.5	7.1	7.0	6.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Background to the Budget 1999/00; Minister of Finance's National Budget Speech 10 June 1999.

Table A.2 shows the sectoral allocation of public funds in the recent past and in the medium term. It is evident that of the poverty-reducing public investment programme areas, education and roads, but not health, have received increased funding in both absolute and relative terms. Public investments worth Uganda shs. 526 billion were devoted to human development (primary education, primary health care, and water and sanitation) in the same period. The share of education, health and roads in total public funds increased from 32% in 1994/5 to 45% in 2001/2002.

Unfortunately, agriculture where the majority of the poor derive their livelihood has received no real increase. This is partly due to the deliberate policy of leaving commercial activities within the agricultural sector to the private sector although there has also been evidence of poor public service delivery in the sector.

One important source of financial resources for the poverty reduction areas has been the Highly Indebted Poor Countries (HIPC) Debt Relief Initiative which has released resources towards these poverty areas that otherwise would have been utilised to meet external debt obligations. All the savings as a result of this Initiative have been spent on rural roads, agriculture extension, land reforms, primary education, primary health care, finance and accountability through the Poverty Action Fund (PAF), which was established in June 1998. Table 1.3 shows the allocation of additional expenditures financed from the Poverty Action Fund[28].

[28] In addition to the HIPC Multilateral Debt Relief Initiative savings, the Poverty Action Fund received contributions from other donors namely Netherlands, Sweden, UK, Belgium, Republic of Ireland, European Union and USAID.

Table A.3: Allocation of public funds to Poverty Eradication Programmes from the PAF

Programme	1998/1999 (Ushs.billion)	1999/2000 (Ushs.billion)
Increasing Incomes of the poor		
Rural roads	13.9	13.1
Implementation of the Land Act	0.0	3.0
Agricultural Extension	4.0	5.6
Micro finance/restocking programme	0.0	18.8
Improving the Quality of life of the poor		
Primary Health Care	15.3	23.2
Water and Sanitation	11.4	13.0
Primary Education	42.2	76.1
Accountability	4.1	7.7
Total	**90.9**	**160.4**

Source: Minister of Finance's Budget Speech, 10 June 1999

Public investment in the rural feeder roads sub – sector for the period 1990 – 1998 was 1.8 per cent of the total Public Investment Plan (PIP). Agricultural research and extension has been emphasized because of the importance of the agricultural sector in Uganda's economy. Investment in the sub – sector accounted for 6.0 per cent of the entire PIP for the period 1990 – 1998

From Table A.3 above, it can be seen that the PAF funds allocated to education almost doubled from 1998/9 – 1999/2000. Agriculture extension has also received increased funding, as well as sectors that have a bearing on agriculture production, since agriculture is the mainstay of the economy.

2.1 The Plan for Modernization of Agriculture (PMA)

The PMA is part of the PEAP to meet Pillar 3 of increasing the incomes of the poor. Agriculture accounted for approximately 40 per cent of GDP and 45% of all household income and 81 per cent of households living in poverty in 1999/00 (UBOS, UNHS, 2000), and 80 per cent of the household heads were employed in the agricultural sector (Appleton, 2001). Therefore a sustained increase in agricultural productivity is central to Uganda's economic development. Modernisation of agriculture is therefore one of the core strategies adopted by government to address the rampant poverty. Others include road maintenance, primary education, primary health care, and promotion of private sector, decentralisation and affordable credit.

It is realised that the majority of the agricultural population have little or no formal education, thus making technology transfer slow and difficult. The Government of Uganda instituted the Universal Primary Education (UPE) to solve this problem. There is also a DANIDA funded component, which focuses on the youth and especially primary education leavers to turn them into useful citizens by teaching them the necessary agricultural skills. The decentralisation policy and posting of graduates by government to sub-counties is also to ensure that the farming community get quality advice.

Interventions that accelerate the growth of the agricultural sector are likely to be particularly beneficial to the poor. These interventions should be designed to slow down environmental degradation, increase returns to labour, and create employment opportunities. Interventions to stimulate equitable agricultural growth must address the key constraints faced by poor farmers, such as lack of information, limited marketing opportunities, and insufficient access to inputs.

Since small farmers constitute the bulk of the rural poor, the poverty eradication impact of small farmer development can be significant. The majority of small farmers grow their own food and therefore contribute substantially to solving the problems of hunger and under-nourishment. Improvement in small farmer incomes increases the demand for locally produced goods and services and therefore strengthens links between agricultural and non- farm economic activities, particularly in rural areas. These interventions include assisting with the provision of quality inputs to production and helping develop strategies to add value to inputs.

The other role that the PMA is presumably intended to fulfil is that of coordinating across these sometimes very complex policy domains; to identify policy interconnections; who has to do what and when for the ensemble to succeed; which coordination problems could be reduced by aligning the organizational structure with the policy mix, for example, the plan for the modernization of agriculture[29] to cover the whole of the agricultural sector.

2.2 Micro Finance

Another aspect of the PEAP is micro-finance. Micro finance involves credit and savings activities conducted outside the formal financial system, with much smaller transactions than the formal sector. Micro Financing Institutions (MFIs) evolved out of realization that a large proportion of economic activities in Uganda are done by small farmers, fishermen, micro entrepreneurs and casual income earners, most of whom have limited or no access to financial facilities in the formal sector. The actors in the informal sector are generally poverty-stricken and poorly educated, with little or no collateral to offer and limited access to social and financial services. The enterprises are small both in terms of size and capital outlays, but comprises a very vital economic force in the development process. It is this sector that provides employment and income to the rural and urban poor, and leads to the production of basic goods and services used by low-income people.

MFIs have several advantages. They tend to be widespread and therefore closer to the majority of the people. They give small and short or medium-term loans and this gives opportunity to low income earners to employ themselves and increase their productivity. MFIs employ simple methods of loan disbursement and encourage savings among the population. Needless to say that saving is a critical element for sustained economic growth. MFIs have comparatively higher recovery rates because they employ selective means with the intention of creating a culture of loan repayment, MFIs create awareness in communities about the importance of financial institutions and business enterprise, and they can also help in stabilizing prices of primary produce and food crops.

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