

MAKING SERVICE MARKETS WORK FOR THE POOR

The Experience of Uganda

by

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Disclaimer

The views in this paper are either the authors' or derived from interviews with key informants and stakeholders and are not necessarily endorsed or shared by the International labour Organisation (ILO) or the British Department For International Development (DFID) as donor.

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Where possible, actual exchange rates have been used to give an indication of the international value of amounts in Uganda Shillings. Otherwise, approximate US\$ equivalents are given, calculated at the exchange rate at the time of writing of Ushs 1,840 = \$1.00.

Foreword

The Business Services Market Development (BSMD) project is a DFID/ILO initiative to demonstrate new approaches to business development; it focuses on services that can be provided profitably and therefore sustainably, by the private sector in Uganda. In the last three years, it has published extensively on the subject of value chains for agricultural produce; these publications point to various ways in which value chains can be used to analyse commercial systems and practices to improve the operations of the small-scale business sector in Uganda. In particular, the publications cover access to local and international markets, to supplies and to critical business-to-business support.

This study profiles 8 different service sectors, applying a common framework in each case. It does not look specifically at business services, since this has already been studied and documented by BSMD and other projects in Uganda. Instead, it applies a service market development 'lens' to different disciplines, and draws some comparative conclusions across sectors.

Such a wide-ranging study has not been attempted before, as far as the authors are aware; necessarily, therefore, it is exploratory. The necessary frameworks are only now emerging, but the experience with business service market development has proved invaluable in interpreting the available information. In some cases (e.g. vocational training) information about current provision by the private sector was very sparse, and so some extrapolations have had to be made.

Nonetheless, it is very much hoped that this study will prove to be the first of many, and that experts in each of the service markets will discover common ground with each other, to their mutual benefit. Each discipline has remarkable achievements in different aspects of service market development, and there is much that each can learn from the others.

A concurrent global study is in progress on achievements in service market development around the world; it covers other sectors, such as municipal water supply, but the broad lessons remain the same. The results of this and other work will ultimately be posted on www.mmw4p.org, the website for Making Markets Work for the Poor.

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Executive Summary

The idea of developing service markets has attracted much attention in recent years, as a way to leverage the public funds available, and to ensure that they achieve maximum impact in the long term. While subsidies may be needed to reach the poorest of the poor, current approaches tend to lack precision; they may even be displacing local initiatives in the private sector. This Paper therefore considers what service markets are currently achieving in Uganda, the extent to which they are meeting the needs of the poor, and how these achievements could be enhanced, both in terms of improved service quality and in terms of greater outreach.

Some service markets, such as commercial radio, financial services, and telecommunications, have developed in very interesting ways, thanks partially to careful policy-making and regulation. Other service markets, such as agricultural extension and training, are still largely characterised by publicly funded provision running in parallel with sustainable provision by the private sector. Secondary education, primary health and public transport are somewhere between these two ends of the spectrum. This Paper considers all of these service markets.

In commercial radio, it finds that rural people in particular want more developmental information in their programming, and that commercial radio stations are beginning to notice this demand from their listeners - and the associated potential for increased sales to their advertising clients. However, the propensity to use public money to buy airtime, in order to control content, risks undermining this trend. Ownership of radios is probably the factor limiting outreach to the poorest Ugandans at present.

In financial services, there is an interesting convergence between mainstream financial markets and development-oriented banking, particularly in the form of micro-finance. While micro-finance started as a poverty-reducing instrument in a non-profit setting, it has become clear that the interests of the poor may best be served by scaling up this provision through commercial channels. However, the industry currently has neither the branch network nor the products to reach the poorest Ugandans.

In telecommunications, the benefits of limited competition have become clear; those winning licenses have been able to invest with confidence, and the government has been able to set pro-poor conditions for those licenses. Now that more competition is imminent, prices can be expected to come down further; while some policy anomalies remain, the achievements of careful regulation have been impressive, in expanding outreach and scale.

In secondary education, the private sector is moving vigorously to meet the demand generated by Universal Primary Education; indeed, secondary education is becoming an important export industry to neighbouring countries. The reputation of the individual school is the most effective assurance of quality at present; school fees in some cases are low enough (e.g. Ushs 50,000 or \$28 per term) to appeal to the poor.

In primary health, provision is fragmented into many different kinds of providers. Abolition of user fees has increased usage by the poorest of government-run facilities, but the distance that they must travel to do this remains a challenge for some. Rural drug shops and clinics in the private sector remain important for the poor, therefore, but are often run by people with inadequate qualifications. Training to give such people the full range of skills they need to run such clinics would be helpful. Traditional healers are reported to be numerous in rural areas, and are expected, therefore, to be important providers of health care to the poor, too. However, surveys indicate a surprisingly low usage of their services.

Public transport is working relatively well in urban areas, although less so in rural areas. Road safety is an important issue. Appropriate regulations exist for testing drivers and inspecting vehicles, and should be easier to enforce than inspections of rural health clinics, for example. In practice, however, enforcement is very patchy.

Agricultural extension historically has been provided free-of-charge, and current initiatives to move towards a more self-sustaining basis suffer from several challenges. One is a lack of formal links with markets, and another is difficulty in distinguishing between subsistence and commercial farming. Meanwhile, the private sector delivers some extension services, for example as part of a larger trading relationship, and through the mass media. These experiences could be expanded and enhanced in future, to achieve greater outreach.

Training similarly continues to be seen both by the poor and by many policy-makers as the duty of government to provide, essentially free of charge; however, resources are not available to fulfil this expectation. Meanwhile, there are significant numbers of trainers in Uganda operating on a self-sustaining, commercial basis. Government and donor policies could achieve greater scale by supporting and encouraging them - for example by raising awareness about the courses available, and by stimulating innovation in training content, to adapt to new market opportunities.

Key recommendations include:

- the need for more research on the extent to which the service needs of the poor are being met through markets
- the need for cross-sector approaches to service market development
- the need for more knowledge sharing between policy-makers in service market development
- the opportunity for donors and others to promote consumer education, and dissemination of information, to consumers of services, and to support industry-wide bodies of service providers in developing and implementing codes of conduct
- the opportunity for various stakeholders to develop synergies with larger companies willing to adopt new business models, in order to serve the poor on a larger scale

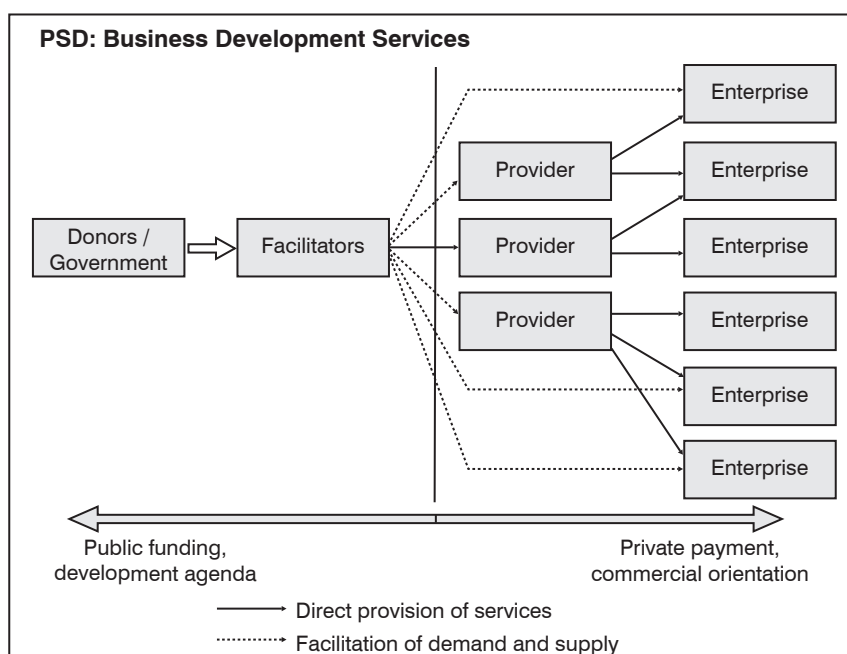
1 INTRODUCTION

Historically, development aid focused on direct delivery of subsidised services - perhaps because of its origins in charitable giving and emergency aid. Over time, however, it became clear that this approach was unlikely to lead to large-scale alleviation of poverty, unless the underlying systems were also taken into account. Otherwise, subsidised services were only going to reach relatively few people - and even then, only as long as the subsidy lasted.

Pressures still remain for 'quick hits' - the rapid generation of quantifiable impacts. Mostly, though, development agencies are now more interested in achieving sustainable improvements, and this inevitably means that the design of interventions must take into account how local systems currently operate, and why. This approach is more time-consuming, and harder to measure in the short term; nonetheless, it is the only way to achieve lasting change.

The most obvious system involving almost everyone is the market - although there are many others, such as social and cultural systems. This study looks mainly at markets as means of service delivery to poor people; it does not consider ways in which markets may work for the poor as producers or as employees. It is based on a convergence in understanding around what the private sector is already doing and can do to provide services, and the roles that Government and others can play in regulating and enhancing that.

For example, the traditional approach adopted by donors involved in promoting enterprise development was to work through a limited number of training centres and provide subsidised business services, such as training, advice and information to a target number of small businesses. Recognising the limitations of this approach in terms of outreach and sustainability, the Committee of Donor Agencies for Small Enterprise Development prepared new Guiding Principles in 2001 (www.sedonors.org), which emphasise the importance of facilitating whole service markets.



Examples of the implementation of this approach in business services can be found at www.bdsknowledge.org and the DFID/ILO project sponsoring this study, Business Services Market Development (BSMD), at www.bsmd.or.ug, which is focusing primarily in this area. Other groups working in this direction include, for example:

- USAID/Chemonics in health care www.psp-one.com
- World Bank in water supply www.worldbank.org/watsan
- the Centre for British Teachers in education www.cfbt.com

These sites and many others present evidence that the private sector is already delivering a wide range of services to poor people, filling gaps in public-sector provision - often despite the local regulatory framework. Similarly, they often argue that poor people prefer private service provision, if at all possible; “when the poor at the bottom of the pyramid are treated as consumers, they can reap the benefits of respect, choice and self esteem”¹. They also have more leverage over service quality and delivery formats. There may also be other advantages; in health, for example, they may feel that there is a better prospect of confidentiality, and less risk of cross-infection.

This Paper is one of the first to look at many different service markets, to discover the elements in common when focusing on the delivery channels (the ‘how’) rather than on the services themselves (the ‘what’)². While we can all agree that the poor should have access to health care, education, agricultural extension and other services, free-of-charge and to an acceptable quality, this may be a difficult goal to achieve. This is because of many factors, including limited public funds, weak incentives and inefficiencies in the system. Often there is quite a gap, in some service sectors, between the ultimate vision and the reality today.

This gap leads some people, including for example Jeffrey Sachs in the UN Millennium Project report, to conclude that there is an urgent need to dramatically scale up aid budgets. However, this is not the only possible response. There is much evidence that the private sector is responding in very dynamic and creative ways to the challenge of service provision; if there is no immediate prospect of dramatic increases in public spending, then we can learn about how to make existing funding more effective from the current work of the private sector.

The objective, then, is to learn about how to get the best value for public funds, both through Government actions (including the regulatory framework) and donor interventions. Markets can fail the poor; on the other hand:

“If the action of the state effectively crowds out private provision for all time, then the access frontier becomes a ceiling; and that market cannot work further for the poor. The state has effectively locked itself into the long term fiscal burden of provision. But if the state intervention can meet the needs of the very poor while maintaining the incentive for private firms to push the access frontier, then the state is designing its own exit strategy and limiting its fiscal liability.”³

This is particularly important in Uganda, where population growth currently stands at a relatively high 3.4%. If this rate were to be maintained, the population would effectively double in the next 25 years, making it rather more costly to provide adequate social services on a subsidised basis.

Uganda also provides a very promising setting for such a review, since the Government has made impressive progress in deregulating various service sectors, including telecommunications, radio, finance and transport. Some of these sectors will be considered in this document, to review how the private sector invested in order to serve poor people in dynamic ways. It has also made impressive steps to ensure that funds reach those for whom they were intended, for example in education:

¹C K Prahalad, *The fortune at the bottom of the pyramid: Eradicating poverty through profits*. Wharton School Publishing, 2004

²See www.dfid.gov.uk/news/files/trade_news/adb-workshop.asp for an early example.

³The Access Frontier as an Approach and Tool in Making Markets Work for the Poor, by David Porteous, late draft 26 May 2005 for DFID's Policy Division.

"When the government of Uganda learned that only 13% of recurrent spending for primary education was arriving in primary schools, it launched a monthly newspaper campaign on the transfer of funds. That campaign galvanised the populace, inducing the government to increase the share going to primary schools (now over 80 percent) and compelling school principals to post the entire budget on the schoolroom door."⁴

This Paper does not argue against subsidies, but rather in favour of targeting subsidies away from activities where the market is probably better placed to serve people. This will result in increased funding to develop and test approaches that can reach the poorest. There are, therefore, two questions:

- How to use available public funds to reach the poorest of the poor in a targeted fashion?
- How to enable markets to serve the poor better?

This Paper focuses primarily on the second question, to consider for example:

- What are the best practices for Government, in regulating the different sectors, strengthening providers, and serving consumers with information?
- How far down towards the poorest of the poor can private sector providers actually reach? What can Government and donors do to enhance that reach?
- What are the roles for civil society, for example through consumer service organisations, and associations of private sector service providers etc.?

While the development of intellectual frameworks is necessary and important, this Paper focuses on the empirical evidence available, and mostly seeks to fit it into frameworks already proposed. For example, one emerging framework⁵ relates to how the market may be expanded over time, and the limits to that expansion in reaching the poor; comments are made relative to that framework, where the data could be found to support such analysis.

However, in practice analysis has been limited by several factors:

- little original research has been conducted for this modest study, so only available data could be used
- these data are not comprehensive; in particular, there is little information about how service markets develop over time and in addition, the data are also not always consistent (e.g. for radio ownership)
- the data are somewhat skewed by the insecurity in the north, where 65% currently live in poverty (compared to 8% in Central Urban)

Nonetheless, the 2002/03 National Household Survey suggests that:

- 38.8% of Ugandans live in poverty
- 47.7% of Ugandans are aged 15 or above
- therefore, there are 4.7 million adults living in poverty

Calculations will be based on these numbers in the analysis in each Section; it is very much hoped that this empirical look at the current situation will stimulate further research and discussion, in order to achieve the greatest scale and outreach of services possible with the public funds currently available.

⁴World Development Report, World Bank, 2004. p 7-8. A more detailed account of this can be found in *The World's Banker*, by Sebastian Mallaby, Yale University Press 2005, pp 224-226.

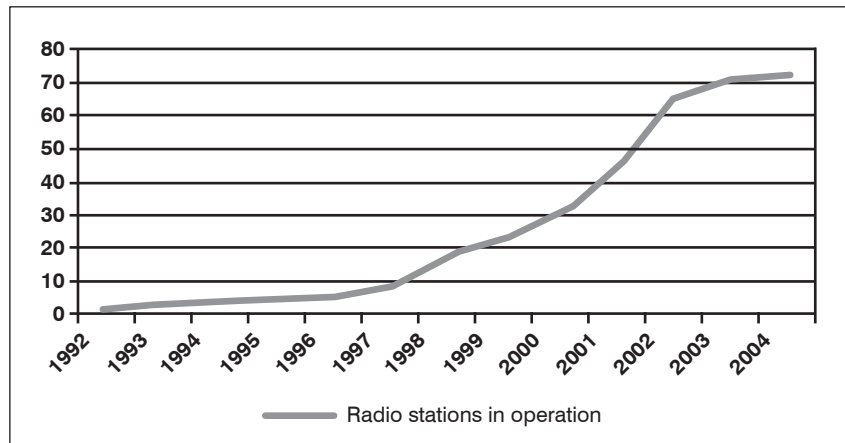
⁵The Access Frontier as an Approach and Tool in Making Markets Work for the Poor, by David Porteous, late draft 26 May 2005 for DFID's Policy Division.

2 COMMERCIAL RADIO⁶

While TV and print media are important in informing policy makers and reaching the urban population, radio is by far the most important media in reaching the majority rural and non-English speaking people in Uganda.

A. Brief History

Until 1993, radio in Uganda was the domain of the State, with Radio Uganda broadcasting in over 50 languages throughout the country; unfortunately, though, programme content was often influenced by the Government, and tended not to be very lively. The industry was liberalised in 1993, with commercial radio stations being established first in



Kampala, and later throughout the country; indeed, there has been rapid growth since then in the number of stations, as the graph shows.

There are now about 120 radio stations registered in the country, giving excellent coverage, both geographically and in terms of language. The great majority of these have been established essentially for commercial reasons, as the cost of launching them is relatively low, and the market for advertising is good. Some have a religious motivation, and a few probably are seen as an opportunity for enhancing a career in politics; predominantly, though, they are for-profit, and often focus on entertainment (and specifically, music).

The Government responded to this rapid growth with the Electronic Media Act, which led in 2002 to the establishment of the Uganda Broadcasting Council, to regulate broadcast media. Aspiring broadcasters now have to show that they will be financially viable, and have convincing plans for generating appropriate content. The Council is becoming more assertive, and recently closed down a radio station that had not met its criteria.

It is also in the process of finalising the National Broadcasting Policy, which aims to “promote the delivery of high quality and efficient broadcasting services”⁷. In particular, the draft policy aims to encourage the development of a community broadcasting sector that will “minimise elitist, urban-centred vertical communication”.

But it is not clear how these new community radio stations will be financed, if not by advertising revenue. Even if they are funded from non-commercial sources, they are likely to have a damaging impact on the vibrant commercial radio sector currently operating in Uganda. Unfortunately, though, the owners of the current stations do not form a coherent and influential advocacy group.

⁶Many of the graphics and statistics in this Chapter were generated by the FIT SEMA project; thanks go to all involved, including FIT Uganda, ILO, DFID and Sida. More information can be found at www.bdsknowledge.org

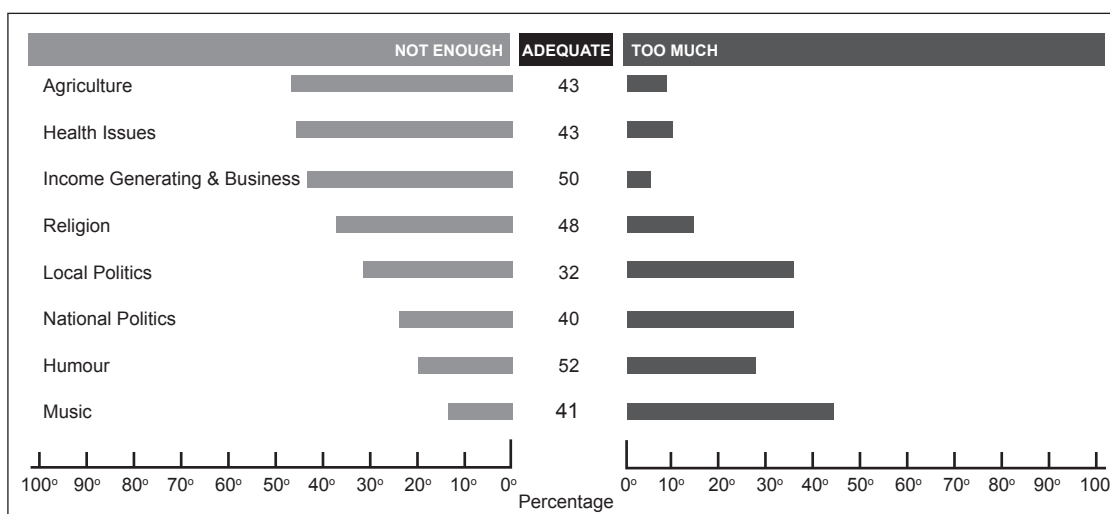
⁷Draft National Broadcasting Policy, A New Broadcasting Aspiration for Uganda, Broadcasting Council, July 2004

In summary, the commercial radio sector is currently rather healthy, with vibrant demand (many listeners) and supply (many radio stations). However, audience research is not well developed and as a result programme content is not yet sufficiently oriented to the interests of listeners. There are possible threats to the industry as it currently stands, in the form of proposed regulation that would influence the industry in certain pre-determined directions. Finally, development agencies are arguably relating to the industry in ways that leave it weaker, rather than stronger; this is explored in more detail in the following Section.

B. Unique Features of this Service Sector

The most important feature of commercial radio is that it is reaching millions of rural people in Uganda, who otherwise are essentially unable to access information - and who anyway have a strong oral tradition. Radio does not require them to be literate or to understand English, only to have access to a radio set.

Because they often have no other source of information, rural Ugandans actually want radio programming that is substantive and will help them in their livelihoods. This is contrary to the popular conception that commercial radio will seek the 'lowest common denominator, for example by providing only music that will appeal to the masses. That might be partially true in urban areas, but the evidence is that in rural areas, listeners would prefer more information in their radio programmes. The following graph summarises the findings of a recent ILO survey of (mainly rural) listener views on radio programme content:



This graph shows that listeners would prefer more radio content to focus on agriculture, health and income generation issues, and rather less on music, humour and national politics.

One feature of the commercial radio industry shared with some other service sectors is that it requires many different players, in order to function properly; some of these players are not yet fully in place, and that is limiting the possibilities. For example, there are concerns about the reliability of current listener figures among socio-economic groups C, D and E, particularly in rural areas.

An unfortunate feature of the service sector as it currently stands is that many development agencies see it as a useful means to achieve their goals, rather than as a service sector to be strengthened in its own right. As a result, many agencies purchase airtime, including whole programme slots, in order to ensure that the content that they have generated is broadcast, at the times they select.

This policy is widespread in many countries; it is estimated that at least 20% of radio station revenues are currently coming from development funding in Uganda. While this meets the short-goals of the agencies at a relatively low cost (including transaction cost), it has the following disadvantages:

- Editorial control is essentially taken away from the radio stations and their journalists, and taken instead by the development agencies and their appointed representatives
- As they generally have funding and a tight timetable, the temptation is always there to pay above the market rates for airtime, thus distorting the market
- When external funding comes to an end, radio stations tend to 'pull' the programme, even if it is popular, in the hope of securing additional development funding
- Because the discipline of needing to attract listeners is not necessarily there, development-generated programmes can be rather boring

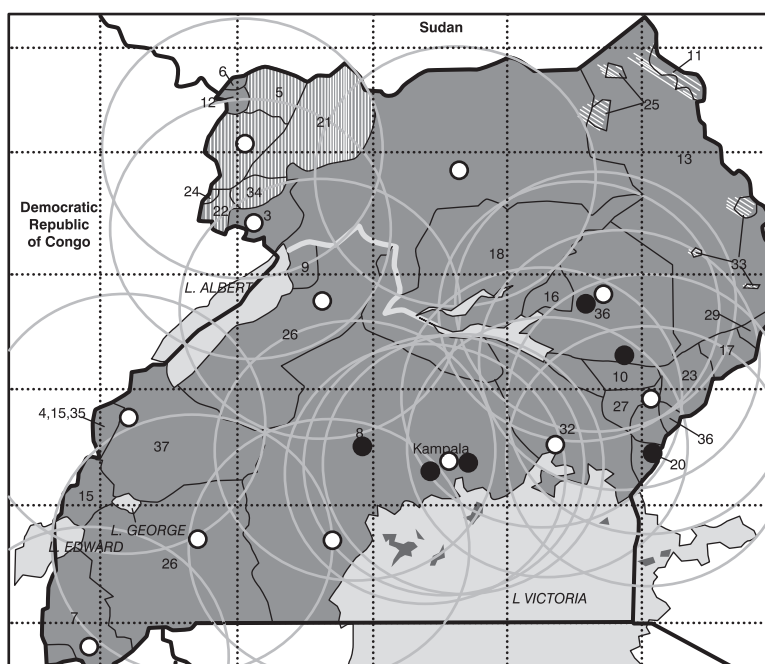
So, while the purchase of air time helps the finances of radio stations in the short term, it often does little to develop the radio industry in the long term.

Finally, another unique feature of this service sector is that it can reach people living in conflict-affected zones - sometimes where no other service is effective. A recent survey in Lira found that people aspired above all to acquiring a house, but their number two aspiration was to acquire a radio (number 3 was a bicycle). UNHCR are apparently now distributing wind-up radios to people in the area. The potential of commercial radio to assist in reconstruction must therefore not be underestimated.

C. Current service provision by commercial providers

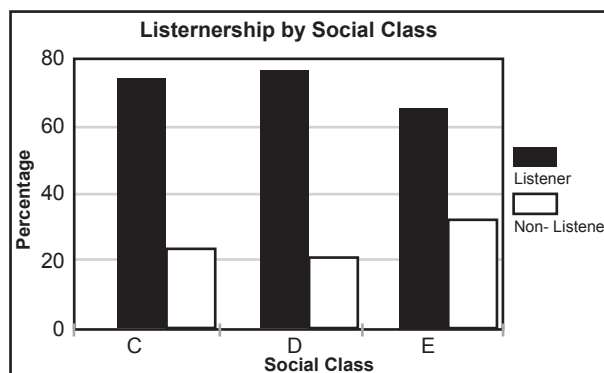
Commercial radio now covers almost all the country, broadcasting in a large number of languages; the map below shows the approximate signal coverage. Many stations broadcast in more than one language, so Ugandans often have a choice of several stations, even if they live in rural areas.

One recent survey found that 91% of Ugandan households own a radio⁸; the media research firm Steadman's found an even higher proportion, at 93%. The 91% figure suggests that there are 1.07 million Ugandans living in households without their own radio. If those are all amongst the poorest, then 23% of those living in poverty do not own a radio. Some of these, however, may still have access to a radio, at least for part of the time, elsewhere in the village; while there are no data on this, it is fair to say that fewer than 23% of those in poverty have no access at all.



⁸MSE Radio Programme Listener Survey, ILO FIT-SEMA, September 2004.

The ILO survey referred to above did look explicitly at how many of the poorest did actually listen to the programmes for small enterprises, and the results are summarised in the Figure, below. Unfortunately, though, it did not use the same poverty criteria as those applied in the National Household Survey (which were quite complex⁹), instead defining the poorest as owning no land, cows or transport, and living in mud and grass-thatched houses. Nonetheless, it seems likely that the two groups overlap to high degree; the 2003 National Household Survey found that (probably the poorest) 35% had thatched roofs, which is close to the proportion of 38.8% found in the same study to be living in poverty.



This chart indicates that 33% of the poorest Ugandans were not listening to the radio programmes for small business; if the two definitions of poverty were identical, this would suggest the following:

- Current usage level among the poorest is 67%
- Current access frontier: 10% of the poorest own radios, but are currently choosing not to listen to the programmes on small business (since 77% of households own radios)
- Access frontier in the future: 23% (1m) of the poorest may listen if they can acquire a radio (although some may already have access and be choosing not to listen)

However, the data are not totally consistent. The National Household Survey also found that ownership of a radio was only 63% (and by the way, that electronic media were the main source of information for 60% of Ugandans). If again we assume that those who own no radio are the poorest, then virtually none of the poorest own radios. If these statistics on radio ownership are the more accurate¹⁰, then:

- current access frontier: 5% of the poorest own radios, and so represent the lowest figure for current access
- access frontier in the future: 95% of the poorest may listen if they can acquire a radio

There may be some who will never be able to access a radio signal in a language they understand, but this is probably a relatively small number of people. Nonetheless, a key access frontier question is: what scenarios would change this? Might new technologies in radio (or similar formats) extend access to even the remotest areas and smallest ethnic groups? Or are they in what David Porteous terms the “supra-market” group, because the market will never be able to reach them un-aided?

D. Illustrative case study: FIT SEMA

In 1999, work started to persuade commercial radio stations that they could be more profitable if they were to generate content to serve people in small enterprises¹¹. The work relied entirely on technical assistance to radio stations, and did not fund any production or airtime costs. In the same year, CBS decided to try out the concept, and rapidly found that it was indeed successful, in terms both of listenership and of sponsorship.

⁹The National Household Survey uses a method that focuses on the cost of meeting calorie needs, given the food basket of the poorest half of the population, and some allowance for non-food needs.

¹⁰National Household Survey sample size: 9,711 households, but clearly much less focused on radio ownership; ILO sample size 1,111, Steadman's: unknown.

¹¹This work, which is still continuing, has been funded and implemented by a wide variety of organisations, including IDRC, OED (now Horizont3000), ILO, FIT Uganda, DFID and Sida

As a result of this work, listenership to the various programmes has been high. A survey in late 2004 found that over 9 million adult Ugandans in socio-economic classes C, D and E had access to small business radio programmes. Of the total population, 74% were listeners to small business radio, based on the definition that they had listened to these programmes more than 4 times in the last 3 months.

This indicated that there are about 5.5 million listeners to small business radio programmes nationwide. Of these listeners, 67% described themselves as either committed or dedicated listeners. There were no significant differences between either gender or urban and rural populations in the numbers of listeners to these programmes. Nearly two thirds of listeners to these programmes were owners or managers of a small business themselves.

E. Opportunities and threats

Clearly, commercial radio stations are already serving poor people with useful content, and the opportunity is there to enhance that provision, for example through:

- developing the market for training for journalists and station managers, especially in rural areas, highlighting the need for more audience-led programming
- strengthening organisations that generate listener figures, including the capacities of stations themselves to understand their audiences better
- enhancing the coherence of the industry, to enable it to dialogue more effectively with policy makers
- strengthening development organisations so that they can "make development newsworthy"

Potential threats that have already been mentioned include:

- the propensity of development organisations to purchase air time and dictate content, at the expense of strengthening the media industry
- legislation which is overly directive and that does not take into account the vibrancy and value of the industry as it currently stands
- some radio station owners become politically active around election time, and expect their stations to cover their own activities extensively

F. Conclusion

The commercial radio industry serves the poor in Uganda in a variety of very important ways, and could serve it better, given the right environment. This role has not yet been fully recognised by many stakeholders, partly because it has not been viewed as valuable in its own right. A systemic approach could yield important dividends, particularly in reaching the rural poor.

G. Recommendations

Enhancing reach of the service market towards the poorest may be achieved, in addition to the measures outlined above, through boosting ownership of radios; that seems to be the critical constraint at present on reaching the poorest Ugandans. Further research may be needed to ensure that radios (and associated batteries) are available at the lowest possible price, in the rural areas.

Policy makers will be able to maximise outreach and sustainability for their messages, by strengthening the capacity of commercial radio stations, instead of relying on public funds or charitable donations to purchase airtime. Measures may include:

- continuing an open policy towards ownership of radio stations, with relatively few restrictions on content and editorial policies
- strengthening the capacities of development organisations, in publishing information in formats that radio stations will want to broadcast (without being paid to do so)
- encouraging media research organisations to develop accurate information about demand for content, current listener figures etc
- disseminating information about current activities of radio stations: geographical coverage, languages, programming, frequencies etc

Donors, in support of policy goals, will also be able to maximise outreach by making their content attractive in its own right, rather than by purchasing air time. If editorial control remains with local journalists and stations, who can choose to take up the content being generated, this model can be sustained after the external financing ends. This approach might take more effort in the short term, but will reach more people in the long term.

If donors can also focus on strengthening the commercial radio industry in the ways listed above, the impacts will be further reinforced and magnified. For example, donors could develop the market for training of journalists and managers, and strengthen feedback mechanisms from listeners to radio stations; in terms of content, this could focus on agriculture and health, which seem to be particularly in demand.

The private sector, in the form of the commercial radio industry, will achieve greater impact if it can develop greater coherence. This will enable it to participate more effectively in policy dialogue with Government and other key stakeholders.

3 FINANCIAL SERVICES

In the past, Uganda's financial sector was dominated by commercial banks, biased towards the urban areas, and largely excluded low-income and rural segments of the population. In recent years, however, there has been a major shift: micro-finance¹² was originally largely informal and unregulated, but is now being broadly supported for both capacity building and outreach and gradually being integrated into the formal, regulated financial system. As a result, formal as well as semi-formal financial institutions are increasingly including poorer segments of society.

A. Brief history

The Formal Financial Sector

Historically, the government regulated financial services in Uganda to a high degree, setting interest rates and deciding in some cases who should get credit. Liberalisation of the financial sector in Uganda was part of the wide-ranging adjustment programmes started in 1987, in particular through the Bank of Uganda Act and the Financial Act Amendment of 1993.

The aim of the reforms was to strengthen the financial sector, and to encourage competition; in addition, the government has sought to mobilise domestic financial resources. Monetary growth targets have replaced direct control as a means to control the rate of inflation.

These reforms have yielded positive results; inflation rates have averaged about 5% per year over the last decade. The solvency, transparency and liquidity of the banking sector have significantly improved. The ratio of non-performing assets to total assets has fallen from 40% in the early-1990s to about 3.5% in 2002. Savings and time deposits have increased from Ushs 103 billion (\$56m) in 1993 to Ushs 518 billion (\$282m) in 2002, an increase of over 400%. However, the formal financial sector still faces a number of challenges and problems.

In the early 1990s, the banking sector consisted mainly of five foreign banks and two large locally-owned banks; by the end of 2002, the sector included 15 commercial banks, 8 credit institutions, about 18 insurance companies, 67 forex bureaus, 2 development banks and a stock exchange. These financial institutions are mainly concentrated in Kampala, the capital city and a few other major towns.

Four major international banks still hold more than 70% of the total assets between them; new and small banks cannot easily find a market niche, and at best are market followers. The Bank of Uganda has now placed a moratorium on licensing new banks, based on the argument that the economy is over-banked, and that new entrants could further weaken the small banks unless they provide new products¹³.

The existing banks prefer to make loans to large corporations, rather than to farmers or small businesses. Apart from Stanbic, which is located in 55 towns, commercial banks in Uganda have a limited branch network concentrated in urban areas. The average of one branch per 190,000 Ugandans compares poorly with the average of 7,000 people per bank branch for the COMESA region taken as a whole¹⁴.

¹²Microfinance is understood as financial services for the economically active poor, including savings, loans, insurance and money transfer services.

¹³Meyer, Richard L, Richard Roberts, Adam Mugume, 2004 "Agricultural Finance in Uganda: The Way Forward".

¹⁴Meyer, Richard L, Richard Roberts, Adam Mugume, 2004 "Agricultural Finance in Uganda: The Way Forward".

The Micro-finance Sector

Since the early 90s, the Micro-finance sector has been growing rapidly. From a few welfare-oriented institutions, Micro-finance has grown into a vibrant private-sector industry serving Uganda's economically active poor in urban, peri-urban and rural areas with a wide range of financial services. It builds largely on the group-based model developed in Asia, reducing the cost of ensuring repayments by relying on peer pressure within the group.

Micro-finance institutions¹⁵ (MFIs) are now active in 52 out of 56 districts of Uganda, mostly still concentrated in and around trading centres. It is estimated that there are more than 1000 MFIs of varying formality, commercial orientation, and professionalism. Majority of these are less formal institutions, frequently owner managed, including multi-purpose NGOs, cooperatives, and informal organisations. The industry also includes a few more formal, commercially-oriented micro-finance institutions that have demonstrated remarkable growth in terms of outreach, recognition, and professionalism since the beginning of 1994.

The number of MFI clients has increased from about 50,000 in 1990 to about 930,000 by 2004; most of them are women. The vision in the industry is to reach 1.3 million clients by 2006¹⁶. The total volume of loans made by MFIs has grown from Ushs 53 billion (\$29m) in 2001 to Ushs 87 billion (\$47m) in 2003. Savings have increased from Ushs 65 billion (\$35m) in 2001, to about Ushs 129 billion (\$70m) in 2003 - exceeding the amounts lent by MFIs.

In 1995, the government was involved in direct delivery of micro credit through the "Entandikwa Credit Scheme", to promote rural and agricultural financing; targeting the section of the population that could not obtain credit through traditional commercial lending. However, only 40% of the loans were ever recovered, so the government was convinced to withdraw from direct delivery of micro credit, and focus instead on facilitating the emergence of sustainable MFIs through the creation of a liberalised policy environment. It has also shifted its major programmes (supported by the EU, IFAD and the African Development Bank) to capacity-building assistance and indirect wholesaling of funds through the semi-autonomous Microfinance Support Centre Ltd.

The development of this service market can be attributed to the high level of collaboration and consensus building among stakeholders (donors, government and practitioners), in particular through the Micro-finance Forum.¹⁷ Donor coordination is equally strong through the Private Sector Donor Sub Group. In 2001, donors supporting Micro-finance in Uganda agreed on guiding principles for supporting the sector¹⁸. All donor support would aim for scale, financial self-sufficiency, increased access for the rural poor population, and independence from donor support. Again in 2001 stakeholders agreed on principles for capacity building support for MFIs, Apex organisations, and the development of the local capacity-building market¹⁹.

Again through stakeholder collaboration and consensus building, a Micro Deposit Taking Institutions (MDI) Act 2003 was put in place. This regulatory framework allows eligible institutions to intermediate savings from the public under central bank supervision, thus enhancing their viability, while safeguarding people's deposits²⁰. To date, three MDIs have been licensed, one more institution has applied, and a fifth is expected.

¹⁵A Microfinance Institution or MFI is used in the broadest possible sense to include all types of formal and semi-informal financial institutions that provide financial services to those lower income customers who do not have access to the full range of financial services from formal sector commercial banks.

¹⁶Strategic Plan for Expanding the Outreach and capacity of Sustainable Microfinance in Uganda, 2001

¹⁷Goodwin-Groen, Till Bruett, and Alexia Latorture, "Uganda Microfinance Sector Effectiveness Review," Washington, D.C.: Consultative Group to Assist the Poor, 2004.

¹⁸Donor Principles for Support to Uganda's Microfinance Sector, 2001

¹⁹See Uganda Capacity Building Framework 2001, which is now being revised to form the Principles and Strategic Issues for Capacity Building.

²⁰MDI Act 2003

Realising the contribution of Micro-finance to poverty alleviation, The President of Uganda announced in 2001 that the Government would make available Ushs 10m (approx. \$5,400) in each sub-county to promote access to financial services. Stakeholders realised that this could damage the industry; given the experience of the “Entandikwa” scheme. They therefore developed a strategic plan for expanding the outreach of Micro-finance into the rural areas on a sustainable basis²¹, which was approved by government in 2002. This multi-donor/government plan is based on the principles of long-term sustainability through increased efficiency, commercial viability, and market development for capacity building services; it is currently being implemented.

Due to past successes, politicians and policy-makers have high expectations for MFIs; in the industry, however, there is growing recognition that MFIs do not necessarily have the right instruments or skills to meet certain important market segments such as:

- agricultural finance, particularly term finance (see also the Chapter on Agricultural Extension services for a discussion of services for agricultural finance)
- small and Medium Enterprise (SME) finance, with particular emphasis on affordability for SMEs that compete in markets against larger firms but cannot readily access commercial bank finance
- income generation for vulnerable groups including rural women, smallholder farmers, resettled persons and the very poor who lack skills and assets

As a result, the vision is broadening to one of a “pro-poor” financial system, consistent with recommendations in the CGAP review.²² Subcommittees of the Micro Finance Forum and the Plan for Modernization of Agriculture have been established to develop strategic action plans in these areas, in addition to those already addressing concerns of capacity-building, finance, transformation, lobbying, and consumer affairs.

One current concern is that many MFIs remain essentially unregulated, including non-profit NGOs, Village Savings and Credit Institutions (VSCIs), and privately owned “village banks”. Savings and Credit Cooperatives (SACCOs) are registered and subject to certain regulatory requirements by the Department of Cooperatives in the Ministry of Trade, Tourism and Industry, but in practice oversight has been weak. These institutions (especially SACCOs) play a major role in providing financial services in rural areas, and many accept savings deposits, but they often are poorly managed and have weak governance structures. As a result, there is growing concern about the safety of people’s savings in such institutions, and options for regulation are now being discussed.

Generally, key principles driving the industry today are outreach, sustainability, commercial viability, and legal framework. These are underpinned by capacity building, which is widely accepted as top priority in the development of the industry. Internationally Uganda has been recognised as a success story in Micro-finance, due to the MDI Act, the high level of stakeholder collaboration, and the ability of Micro-finance institutions to become sustainable and independent of donor funds, in the absence of interest rate controls²³.

B. Unique Features of this Service Sector

One unique feature of financial services is that they are largely fungible, and therefore pervade all aspects of economic activity. The financial sector is instrumental not only in fostering investment

²¹Strategic Plan for Expanding the Outreach and Capacity of Sustainable Microfinance in Uganda, 2001

²²Goodwin-Groen, Till Bruett, and Alexia Latorture, “Uganda Microfinance Sector Effectiveness Review,” Washington, D.C.: Consultative Group to Assist the Poor, 2004.

²³Goodwin-Groen, Till Bruett, and Alexia Latorture, “Uganda Microfinance Sector Effectiveness Review,” Washington, D.C.: Consultative Group to Assist the Poor, 2004.

and growth, but also in mobilizing resources and in enabling poor people to have some control over the risks in their lives. Under-developed financial markets limit the efficient reallocation of resources, especially in those sectors and enterprises that are less linked to the financial system.

An aspect that is marked in Uganda is the co-existence, and increasingly the convergence, of formal and informal financial services. Mainstream financial institutions are increasingly seeing ways in which they can profitably serve the poor with new and diversified products that the poor want and need. Meanwhile, the informal sector increasingly sees the merits of improved financial management and performance targets, not least as a means of accessing additional capital for on lending.

C. Current Service Provision by Commercial Providers

Uganda has a tiered financial system. The features of each tier in terms of regulation, number of institutions, branch distribution, number accounts, and extent of serving low income markets are summarised in the table below²⁴

Type	Tier 1 (Commercial Banks)	Tier 2 (Credit Institutions)	Tier 3 (MDIs)	Tier 4 (NGOs, SACCOs, VSCIs, etc.)
Regulatory instrument	Financial Institutions Statute of 1993		MDIs Act, 2003	SAACCOs subject to audits and supervision by commissioner of Cooperatives; others are unregulated
Number	15	8	3 already licensed, 2 more to be licensed soon	> 1500 (incl. about 70 large ones ²⁵)
Number of Towns	55	18	44 towns (11 with no Tier 1 or 2)	33 Towns (9 with no Tier 1, 2 and 3)
Number of Branches	182	28	84	92
Branches outside main towns ²⁶	64 (35%)	12(43%)	53 (63%)	64 (70%)
Number of accounts	1,350,000 ²⁷		930,000 ²⁸	
Extent of serving low income markets	Mainly target corporate and highend retail markets ²⁹	Only one institution (CMFL) targets urban economically active poor	Targets economically active poor in urban, peri-urban and rural areas. Beginning to look up market	Targets economically active poor in peri-urban and rural areas

²⁴See A Private Sector Donor Group Brief 2005: Addressing Current Issues in Micro and Rural Finance in Uganda.

²⁵Estimates based on data from apex bodies. Data refer to the top 70 Tier 4 MFIs.

²⁶Kampala, Entebbe, Iganga, Jinja, Masaka, Mbale and Mbarara

²⁷Bank of Uganda, 30 June 2005

²⁸Industry estimate by 2004The CGAP review estimates 594,000 savers and 356,000 borrowers in top-tier MFIs in 2003 (Goodwin-Groen et. al, 2004, figure 1).

²⁹Stanbic and Centenary Rural Development Bank are oriented toward rural areas. Centenary Bank offers micro-finance services, while others are beginning to serve low-income customers.

The situation summarised above indicates a concentration of formal financial institutions (regulated) in a few towns while only Tier 4 service providers serve other towns. 95% of Ugandans in poverty are living in the rural areas, but even MFIs, with branches in most of the districts of Uganda, still only have 60 branches outside the main towns. As a consequence, it is estimated that only 20% of even Tier 4 MFI clients live in rural areas. These are probably not among the poorest, given that microfinance methodologies as practiced in Uganda require a regular cash flow and the ability to mobilize co-guarantors.

In addition, MFIs offer few products appropriate to the specific needs of farmers and the very poor³⁰. For example, in the West Nile region, only 8% of the potential borrowers and 21% of potential savers are currently being served. A few informal institutions mainly serve the districts of Moyo, Adjumani, and Yumbe³¹. In the Rwenzori region, only 21% of the potential clients are currently being served, and a few informal institutions serve the districts of Bundibugyo and Kyenjojo³². In such areas, some NGOs are facilitating local groups in less commercially-oriented methodologies that are suitable for very small amounts, such as Accumulating Savings and Credit Associations.

The minimum loan size for many MFIs is Ushs 50,000 (\$27), although some in rural areas go as low as Ushs 30,000 (\$16). The minimum savings balance is Ushs 10,000 (\$5.40). The average loan size in 2003 was Ushs 108,750 (\$59) and the average savings Ushs 161,250 (\$88). The National Household Survey found that average monthly consumption expenditure per rural household was Ushs 113,300, but this is adjusted for inflation, so may not be entirely comparable. Nonetheless, it is clear that MFI clients are (as elsewhere) probably in the middle quartiles of income and expenditure in Uganda.

With about 14m Ugandans aged 15-64, the total market within these quartiles would be perhaps 7m people - of which a small portion are salaried persons who would have access to commercial banks. With only 2.3m accounts in Uganda in all financial institutions combined, the industry is far short of the potential access frontier, even without reaching the poorest.

In towns where there is a concentration of financial institutions from all Tiers (Kampala, Entebbe, Iganga, Jinja, Masaka, Mbale and Mbarara), the market is becoming increasingly competitive³³. Some banks, which hitherto focused on the upper end of the market, are entering and providing financial services to low-income clients. On the other hand, most MFIs are adapting their products to suit the needs of their current and potential clients, and many are offering individual loans in response to the growing customer preference. Other new products such as money transfer and micro insurance are being offered, as in the illustrative case study below. Commercial Microfinance Limited, a Tier 2 financial institution offering Microfinance services, converted its loan portfolio from primary group loans to primary individual loans, and is now firmly profitable with good portfolio quality³⁴. Competitive pressure is forcing MDIs and NGO MFIs to identify new market niches in previously un-served or underserved towns, trading centres, and remote rural areas.

Multiple borrowing is increasingly becoming common, though in most cases driven by opportunity rather than distress. Whereas fears of massive over indebtedness seem to be premature, some

³⁰A credit reference bureau is in the process of being established by a private contractor regulated by the Bank of Uganda to serve all licensed financial institutions, including MDIs.

³¹See FSDU Consolidation Challenge Fund.

³²What are Appropriate Interest Lending rates for MFIs in Uganda? AMFIU Information Note 1, 2005

³³AMFIA is a leading regional Microfinance network in Uganda covering the districts of Bushenyi, Mbarara, and Ntungamo, which have some of the best performing SACCOs in Uganda.

³⁴Statement made by Andrew Obara, one of the leading local Microfinance consultants in Uganda.

households seem to be having the problem. 39% of the respondents reported that they had struggled or were struggling to repay their current loans³⁵. This is causing concern to both development partners and government, and consumer education and protection initiatives have already started.³⁶

With over a thousand institutions of various types, the market is ripe for consolidations. As competition increases, the larger and more efficient MFIs are likely to grow, while the smaller and weaker ones may have to consider specialising in less competitive market niches, consolidate (by merging or partnership) to increase scale, competitiveness, or go out of business. Development partners are already looking for ways of supporting such initiatives.³⁷

One of the positive outcomes of increase in scale and improved efficiency (as a result of competition) has been reduction in interest rates. Evidence indicates that interest rates of some leading MFIs in Uganda have been falling from about 5% a month in 2000 to around 3% a month currently and some are shifting from a flat rate to a declining balance as a basis of charges.³⁸ In April 2005, all the 55 members Association of Micro finance Institutions of Ankole (AMFIA)³⁹ agreed to base their interest rates on declining balance, and it is working well. Presently, the main driver of competition is accessibility, but as MFIs continue to compete by opening branches and service points in viable rural areas, the market will become saturated and the basis of competition will shift to price, product characteristics and service quality.⁴⁰

While the mainstream and development finance sectors are competing in some areas, they are finding important synergies in others. For example, commercial banks are wholesaling funds to MFIs, either on a commercial basis or with donor subsidy. These new relationships permit the banks to utilise their comparative advantage in mobilizing savings, while the NGOs utilise their comparative advantage in making loans to lower income customers.

The growth of the micro-finance industry has also triggered the emergence of the local market for capacity building service providers, including specialised trainers, consultants, accountants and marketing experts. Already in Kampala, the market is beginning to get competitive, and some capacity-building service providers are beginning to search for niche markets in other districts.

In conclusion, despite many positive developments, few of the poorest Ugandans currently have access to financial services. This situation is expected to improve steadily as the branch network becomes more extensive, products are developed that better suit the needs of the poorest, and the price of service falls with increased efficiency and competition. However, in some remote rural areas where commercially-oriented institutions are not likely to thrive, socially-oriented initiatives such as Accumulated Savings and Credit Associations and Rotating Savings and Credit Associations are likely to remain the main providers of financial services.

D. Illustrative case study: The Transition from NGO MFIs to MDIs

With the coming into force of the MDI Act 2003, the four largest NGO MFIs (FINCA, Uganda Micro Finance Union, Uganda Women Finance Trust, Pride Uganda) and one private company (Faulu Uganda Limited) made a decision to become licensed MDIs. The NGOs embarked on the process

³⁵The donors that have supported this Transformation Process include USAID/SPEED, DFID/FSDU, EU/SUFFICE, GTZ/SIDA, and IFAD/RFSP.

³⁶See A Private Sector Donor Group Brief 2005: Addressing Current Issues in Micro and Rural Finance in Uganda

³⁷See FSDU Consolidation Challenge Fund.

³⁸What are Appropriate Interest Lending rates for MFIs in Uganda? AMFIU Information Note 1, 2005

³⁹AMFIA is a leading regional Microfinance network in Uganda covering the districts of Bushenyi, Mbarara, and Ntungamo, which have some of the best performing SACCOs in Uganda.

⁴⁰Statement made by Andrew Obara, one of the leading local Microfinance consultants in Uganda.

of transformation, which involved converting from Company Limited by Guarantee registration status, to company limited by shares. All the five institutions revisited their ownership and governance, management information systems, treasury management, branch decentralisation, human resource, product development, marketing etc in order to qualify for licensing as MDIs by Bank of Uganda, and become competitive.

These institutions received considerable subsidies for capacity building and transformation to MDIs from a group of donors⁴¹ and government. The first MDI license was issued in October 2004 to FINCA Uganda Limited, and then two more on 1st July 2005 (Pride Micro-finance Limited and Uganda Micro-finance Limited). Uganda Finance Trust Limited is expecting to be licensed before the end of 2005 and Faulu Uganda Limited in early 2006.

Whereas it is too early to establish the impact of the MDI law on MFI cost structure, targeting and outreach, there are already indicators for continued growth and product diversification. The five large MDI and MDI candidates grew steadily and by September 2004, they were reaching over 230,000 clients. In 2004-05, assistance has been provided to these institutions and four other large NGOs to open or upgrade 17 branches reaching over 20,000 new clients and serving 11 towns not served by Tier 1 or 2 financial institutions⁴². They could represent a cost-effective and relatively safe strategy for substantially expanding access to Micro-finance, since they are under the supervision of the Bank of Uganda.

This argument is further supported by the outcomes so far of FINCA Uganda Limited, the first to be granted MDI licence. These are summarised in the table below:⁴³

	2003	June 2005	June 2006 (projected)
Product Mix	Village group loans only	<u>Loans</u> - working capital loans - Payroll loans - Staff Loans - Village phone <u>Savings</u> - Village savings - Open access - Limited access - Fixed Deposit <u>Others</u> - Money Transfer - Micro Insurance	
Branches ⁴⁴	6	7	8
Number of Clients (Loan Products)	38,246	42,457	48,641
Number of Clients (Savings Product)	0	41,290	74,128
Portfolio Size - Loan	Ushs 6 billion	Ushs 10 billion	Ushs 17 billion
Portfolio size - Savings	Ushs 3 billion (with commercial Banks)	Ushs 4.2 billion (all with Finca)	Ushs 6.3 billion

Source: FINCA Uganda.

⁴¹The donors that have supported this Transformation Process include USAID/SPEED, DFID/FSDU, EU/SUFFICE, GTZ/SIDA, and IFAD/RFSP.

⁴²See A Private Sector Donor Group Brief 2005: Addressing Current Issues in Micro and Rural Finance in Uganda

⁴³Kasi, Fabian, and Clare Wavamunno, "MFI Transformation under a Specific Microfinance Deposit-taking Law – The Case of FINCA Uganda," paper presented at the African Micro Finance Conference on Integrating Microfinance into Formal Financial Markets, Cape Town, South Africa, 29 August – 2 September, 2005.

⁴⁴These are the fully-fledged branches, but FINCA also has satellite branches

As the table above illustrates, FINCA moved from providing only one product to a variety of products, and currently the village group loan products account for 75%, working capital loans 11%, and payroll loans 12%. Savings as a new product is growing fast; 77% of accounts are open-access, which points to the intention of customers to save.

Clients for loan products grew by 11% from 2003 to June 2005, and further growth of 15% is expected by June 2006. The loan portfolio grew by 67% between June 2003 and June 2005, and is expected to grow by 69% by June 2006. On the savings side, number of clients, has grown from nothing to 41,290, and is expected to grow by 80% by June 2006. The savings portfolio grew by 40% between 2003 and 2005, and is expected to grow by 50% by June 2006.

However, the transformation path may not be feasible for the majority of MFIs because of the costs involved and the challenges of transformation⁴⁵. Other unregulated MFIs can harness the benefits of regulation by linking with the MDIs in ways that are profitable for both partners. Development Partners and Government have already put in place mechanisms for supporting linkage banking initiatives⁴⁶.

E. Opportunities and Threats for Industry Development

The MDI law brings only a few MFIs into the formal sector but leaves out a big proportion of providers. Active promotion of linkage banking⁴⁷ may be one way of extending the benefits of the regulation to the big proportion of providers. Linkage banking can join the advantages of local ownership and governance, with the advantages of centralized professional management.⁴⁸ This arrangement will help to make quality safe and secure financial services available to rural population.

Despite the promising future of the financial system, there are still threats that need special attention. The security of savings invested in member-owned financial institutions still poses a risk to the financial system. Although SACCOs are required to submit annual audited financial statements, supervision by the Department of Cooperatives is very weak, due to limited capacity and the recent rapid expansion in registration of new SACCOs in response to political encouragement. There is no regulation or supervision of other Tier 4 MFIs. While mobilizing savings from the public is prohibited, the Bank of Uganda does not have the capacity to supervise this segment of the market.

Apex bodies such as Uganda Co-operative Alliance (UCA), the Uganda Cooperative Savings and Credit Union (UCSCU) and the Association of Micro-finance Institutions of Uganda (AMFIU) could play a limited self-regulatory role through collection and benchmarking of performance-related data and facilitation of capacity-building services. AMFIU is already involved in some activities that can enhance self-regulation. In collaboration with FSDU, they are running a consumer education program aimed at improving the sophistication of choices by made customers. They are also working on a performance monitoring system with support from development partners. AMFIU is also promoting sound practice among its members embodied in the code of conduct. However, there could probably be a conflict of interest for AMFIU to take on a mandated regulatory function, since it would be supposed to both nurture and regulate its members at the same time.

⁴⁵See Kasi, Fabian and Clare Wavamuno "What to Cater for on the Path Towards a Micro-Deposit Institutions", Microfinance Banker, Issue 3, 2005 (to be published)

⁴⁶FSDU2005: Linkage Banking, DFID Financial Sector Deepening Project Uganda

⁴⁷Linkage banking is a business partnership between a regulated financial institution (bank, credit institutions, or MDI) and one or many independent, non-regulated institution(s).

⁴⁸FSDU2005: Linkage Banking, DFID Financial Sector Deepening Project Uganda

The government has just announced that supervision of all financial institutions other than Bank of Uganda licensed and regulated MDIs has been delegated to the Uganda Savings and Credit Union (UCSCU), a specialised apex for SACCOs⁴⁹. However, UCSCU currently has limited capacity and resources to carry out a function of external supervision.

Increasing the access of Uganda's low-income population, especially those in rural areas, to affordable financial services remains a priority for policy makers. In the June 2005 Budget speech, the Minister of Finance emphasised the role of Micro-finance within the framework of a pro-poor budget, and announced its objective of having a financial institution in every sub-county. A detailed strategy for achieving this objective is already in place and includes supporting the creation of SACCOs at sub counties where they are currently non-existent⁵⁰. In order to achieve this objective, the Government needs to take account of potential pitfalls. The poor will not be helped if government subsidies lead to the formation of more weak and unsustainable SACCOs and other member-owned institutions. This will magnify the risks to poor people's savings in weak, poorly managed institutions coupled with weak supervision.

Furthermore, those offering incentives to MDIs to open new branches in currently under-served sub-counties need to look closely at the future sustainability of these operations, once support is withdrawn. This is particularly true in remote rural areas where the level of economic activity is low and likely to remain so in the near future.

As the 2006 presidential election approaches, there is a danger of micro-finance being used by politicians as an election tool. Already, politicians are focusing on high interest rates charged by MFIs as a rationale for more interventionist approaches, even though these rates are driven largely by the high costs involved and have come down in recent years as a result of increasing scale, efficiencies and competition. Some politicians are portraying MFIs as exploiting the poor. In reality, clients are concerned with the cost of finance and would like to see interest rates fall, but they also recognise the benefits of having access to credit at rates that are below those charged by local money-lenders.

F. Conclusions

In conclusion, the financial service sector has developed in recent years in a number of very positive ways:

- Mainstream banks have become somewhat more diversified and competitive, but a few banks continue to hold most of the assets
- The MDI law and linkage banking initiative present new opportunities for integrating Micro-finance into the formal financial sector, while increasing sustainable outreach to poor people
- Competition remains a positive force that is stimulating innovation and diversification of products and services, and seeking out and serving market niches
- More financial services have become available in rural areas although most rural poor remain under-served; those financial institutions that are serving them are weak, do not have the appropriate products that suit the poor, and the body mandated to supervise them is also weak, posing possible future risks
- Microfinance has been recognised as a success story in Uganda. However, one of the down sides is that it has attracted political attention and possibly pressures to satisfy short-term demands at the expense of long-term sustainability

⁴⁹See New Vision 16th September, Government Plan to Enhance Rural Financial Services in Uganda, Supplement by Ministry of Finance Planning, and Economic Development.

⁵⁰See New Vision 16th September, Government Plan to Enhance Rural Financial Services in Uganda, Supplement by Ministry of Finance Planning, and Economic Development.

G. Recommendations

Enhancing reach of the service market towards the poorest requires a more extensive network of branches, so that the rural poor can access financial services - either directly or through local MFIs. It probably also requires the substantial growth of financial services for middle-income Ugandans, to achieve a 'critical mass' of financially-viable institutions of efficient scale, before outreach can be extended to the poorest in the rural areas.

Policy makers could better achieve their goals for outreach by recommitting to their original position of supporting the emergence of sustainable institutions rather than encouraging the emergence of new and weak MFIs that are not likely to be sustainable in the long run.

Scaling up the current consumer education, collection and benchmarking of performance related data, provider's code of conduct, and ensuring greater effectiveness of capacity building initiatives for Tier 4 MFIs could be a more realistic way to minimise risks. Mandated regulation through a body with no capacity to enforce the regulation may not be realistic. Setting up another regulatory body could be one option, but a costly one that may not be justified by the benefits of regulation of small institutions.

Donors, in support of policy goals, could pro-actively engage with government to ensure that inappropriate government policies or political interests do not reverse achievements so far in developing this market. Working in partnership with Government and industry players, donors have a continuing role to play in building capacity within the Bank of Uganda to supervise and regulate the sector and within retail institutions so as to enable MDIs and MFIs to sustainably deliver more affordable and appropriate products for the poor. Support to linkage banking initiatives, establishment of credit reference system, market surveys and stepping up of consumer education programs could improve the effectiveness of financial markets.

Civil Society, As in other service markets, there are no strong consumer groups organised to advocate on behalf of MFI clients, although there are ongoing initiatives supported by Government and donors to educate consumers of financial services on their rights and responsibilities, which could be scaled up.

On **Private Sector**, more proactive advocacy by MFI practitioners (through their apex bodies) would help policy makers to better understand the costs underlying the interest rate charges. AMFIU could be more proactive in lobbying politicians against the use of micro-finance as an election tool, as the country moves towards the election in 2006. AMFIU also has a role to play in persuading its members to comply with codes of conduct that prohibit reckless lending and promote consumer choice.

4 TELECOMMUNICATIONS⁵¹

The telecommunications sector in Uganda provides an important case study on how to regulate an industry over time in ways that encourage both investment and competition. It also illustrates various ways in which the regulator has tried to steer providers towards providing more services to the poor than they otherwise might have done. Finally, it shows various ways in which the private sector moved rapidly to innovate, reaching poor people with services that had not been anticipated by policy-makers.

A. Brief History

Historically, telecommunications in Uganda were the domain of a government-owned monopolistic provider, the Uganda Post and Telecommunications Corporation (UPT&C). UPT&C did not have a good reputation for customer service; acquiring a new landline, for example, was seen as a time-consuming process involving many delays. It also consumed substantial public funds as subsidies.

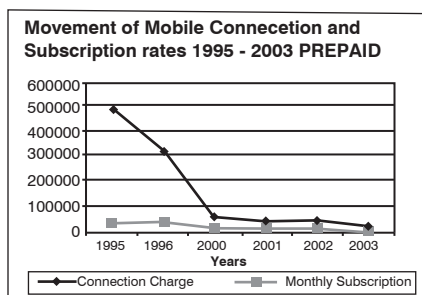
In 1993, Celtel won a license to provide mobile telephony, opening up competition in the sector for the first time. Initially, though, Celtel offered a premium service, based on the high-price, low-volume business model that mobile telephony required at that time. So essentially, the situation remained unchanged as far as the poorer levels of society were concerned.

In 1996, the Minister of Works, Transport and Communications issued a statement outlining the Government of Uganda's telecommunications goals and numerical targets of quality and growth. One of these targets was to increase telephone density from 0.26 lines or mobiles per 100 people to 2.0/100 people. The Uganda Communications Act of 1997 was designed to achieve these targets, through a four-part strategy:

- splitting UPT&C into three entities, with telecommunications going to Uganda Telecom Ltd. (UTL)
- creating an independent regulatory agency, the Uganda Communications Commission (UCC), in 1998 - thus separating the regulatory function from the policy-setting function in the Ministry
- privatising the incumbent UTL; in 2000, the government sold 51% of UTL
- introducing competition in the industry

Competition in both fixed line service and mobile telephony service came in 1998, when MTN was awarded the second National Telecommunications Operator (NTO) license after UTL; this permitted it to provide a full range of services (including fixed line and mobile services).

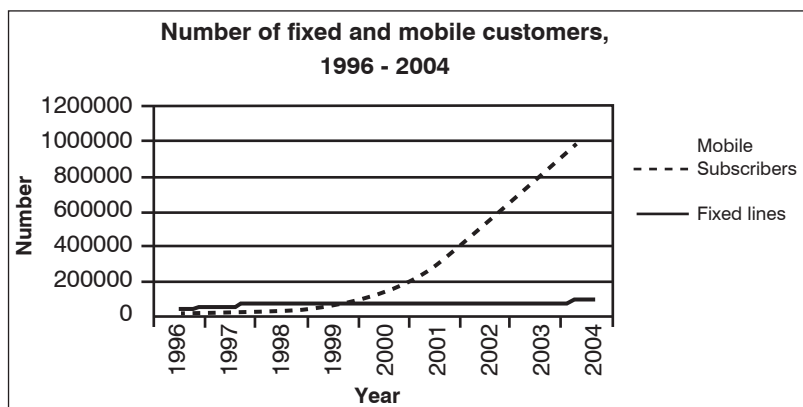
This proved to be a particularly important step in mobile telephony, since MTN was keen to become a market leader. It therefore invested heavily in infrastructure, and at the same time introduced a low-price, high-volume business model. Pressure increased on Celtel (and later UTL) to compete with this offer, and prices came down rapidly, as illustrated by the graph shown here.



Source: Recommendations on Proposed Review of the Telecommunications Policy, UCC, January 2005

⁵¹This case study is based on material by Irene Kaggwa-Sewankambo of UCC; more information can be found at www.ucc.co.ug

MTN also introduced the pre-paid system, whereby users did not need to establish an account (and therefore to prove their credit-worthiness) with the provider. Instead, users paid in advance, and knew that their liability was limited to what they had already paid. These elements, new to Uganda at the time, also had a major impact on the number of customers for mobile phones, as shown in the graph below.



Source: Recommendations on Proposed Review of the Telecommunications Policy, UCC, January 2005

A 5-year period of “Exclusivity” had been proposed, to start from the time when the licence to the privatised UTL became effective. This scheme provided an incentive to attract investment; the Government gave the two companies which won NTO licenses a fixed time horizon, during which they could recoup their investment, before the field was opened up to more competition. UTL was privatised later than had been anticipated; ultimately, ‘Exclusivity’ ran from 2000 to 2005.

Under this scheme, therefore, only two providers, UTL and MTN, were permitted to provide basic telephony service, cellular telecommunications services and satellite service, as National Telecommunications Operators (NTOs). UTL branched out into mobile services in 2001, and meanwhile, Celtel continued to offer mobile phone services. Other licenses were awarded to other providers for services such as Internet Access Service. Those that had obtained the Internet Access licences prior to commencement of Exclusivity had the chance before the start of Exclusivity to apply for permission to establish international data gateways.

In an effort to leverage this partial monopoly, the NTOs were required by Government to provide a minimum number of public payphones. However, the exact location of these payphones was not specified; as a result, they have tended to be clustered in the most significant commercial centres. The pre-paid cards have sometimes been difficult to get, and tend to be for higher denominations than people want to purchase. Anecdotally, it also seems that poorer people find unmanned public payphones difficult to use; as a result, they prefer to use a private pay phone, since there is usually someone in attendance to help them to make the call.

Initially, operators of private pay phones were required to be licensed, but this proved to be impractical. For example, drivers of boda-bodas (motorcycles for hire) were letting people use their mobile phones for a fee, and this service was clearly proving to be most convenient for their customers.

In 2002, customs duties were waived on Information & Communication Technology (ICT) equipment; in the same year, however, excise duty on air time of mobile calls was introduced, and today stands at 12%. In addition, callers must pay 18% VAT; this tax regime is likely to be adding a brake to the development of the sector.

Investment continues in the sector; MTN for example has installed an extensive optical fibre infrastructure. Similarly, both UTL and MTN are now using CDMA (code division multiple access) technology to provide faster rollout of fixed phone service.

The period of Exclusivity is due to end shortly, and it is not yet clear how much of the sector will be opened up to competition. Nonetheless, there are some opportunities which will almost certainly open up soon. For example, the existing NTOs have been allowed to offer Voice over

Internet Protocol (VOIP) services but have chosen not to do so, to the general public. It seems likely that this will be opened up now, so that other providers can offer VOIP; this will dramatically reduce the cost of international calls.

B. Unique features of this service sector

The mobile phone in particular has a number of advantages that are almost uniquely well-suited to people running small businesses:

- no literacy is required, nor is proficiency in a given language
- no fixed or registered place of business is required
- no bank account or credit history is required
- payment in advance limits liability, for example if lending the phone to an employee

There are, however, challenges:

- some power supply is ultimately required, to recharge the battery; handsets with longer battery life are currently being developed by Motorola and others
- signal coverage is still very patchy in the more remote rural areas of Uganda
- users need someone to call; knowing people in distant markets becomes more important than before
- a minimum technical literacy is required at start-up, for example to understand and browse through menus, and to change settings

C. Current service provision by commercial providers

The Government has exceeded its own target for lines per 100 people, reaching 4.2 connections (fixed and mobiles) per 100 people by 2004. While this is a dramatic improvement, it is still lower than the average for sub-Saharan Africa, which stood at 5.3 by 2002⁵². There is still substantial room for growth; given that 94% of all connections are now mobile, the growth seems most likely to come from there.

Over 60% of the urban population (1.2m) use public or private payphones on a regular basis, typically spending \$1.40 per month on calls⁵³. 25% of the rural population (2.9m) are using phones regularly, typically spending \$0.84 per month on calls⁵³. Thus, 36% of adult Ugandans are using telephones (no significant difference has been found in the usage of these facilities by women and men). While this overall level of usage is already significant, it does suggest that telecommunications services may not yet be reaching many of the poorest Ugandans.

Various factors will need to be in place before this can happen, including:

- greater familiarity with the potential of telephones in rural areas
- greater numbers of people to call and be called
- greater outreach of the mobile phone networks into rural areas
- lower unit costs for calls, increasing use of payment transfer mechanisms
- cheaper and more adapted mobile phones

About 3% of Ugandans actually own a mobile phone, with ownership being higher in urban areas (17%) and for male-headed households. Penetration to those earning under \$55 per month is

⁵²World Telecommunication Development Report 2003, ITU Geneva www.itu.int/ITU-D/ict/publications/wtdr_03/material/Chap4_WTDR2003_E.pdf

⁵³E-Access and Usage Index: Uganda Report, April 2005. www.ResearchICTAfrica.net

currently only 0.9%; 6% of those earning \$55-\$273 per month own a mobile phone. Given that all these people are probably supporting many dependents, it can be argued that even those living around the \$1/day level are accessing mobile phone services.

A scheme called Unophone has been set up with Norwegian backing; it aims to increase access to mobile phones in rural areas, by supporting women to establish businesses based on a phone. A loan is made by a micro-finance institution for the initial purchase, and basic operational and administrative training are also provided. MTN has launched a similar scheme, based on the Grameen Village Phone experience⁵⁴. The owners must sell 20 minutes of airtime to break even, according to the recommended business model. About 1,500 such phones have now been sold, covering 46 Districts.

However, apart from the loans, these schemes are broadly replicable by individuals, including for example those with jobs in the city who would like to help their relatives in rural areas to earn some income. Such instances are, however, not apparent from the statistics, so it is difficult (as with privately-operated payphones) to assess their extent in practice.

One recent innovation by MTN illustrates a low-cost mechanism for sending remittances back to rural areas. Called Me2U, it enables mobile phone users with credit on their SIM cards to send some of their credit to another mobile phone user. This means that someone with a job in the city can send credits (in denominations of Ushs 2,000 or approx. \$1) to relatives in the rural areas. These relatives could then, for example, sell units on to their neighbours for use of their phone.

Another innovation by UTL has been the simu4u, under which it has established public pay phone kiosks that sell smaller units. On MTN public pay phones, the unit is in increments of 60 seconds, whereas on simu4u, the unit is in increments of 15 seconds. Per minute, simu4u costs double the cost of a call on an MTN public phone, but the minimum unit that callers must purchase is much lower than that on the MTN phones. It is therefore possible, for example, for callers to ask the person they are calling to call them back, and reduce the cost of making contact.

Not all innovations have been successful, though; for example, a special tariff was introduced by MTN for people operating private pay phones as a franchise. However, this scheme was ultimately used by people for whom it was not originally intended, and was therefore discontinued.

Access to the internet is limited by several factors, one of which is literacy; the current literacy rate in Uganda is about 70%, so it seems likely that the great majority of the poorest adults are currently illiterate. Infrastructure remains another major constraint, although investment in various areas is gradually addressing this.

D. Illustrative case study: Rural Communications Development Fund

The Rural Communications Development (RCD) Policy was launched by UCC in 2003, to improve rural access to communications services; it is supported by a Fund, into which all primary communications providers (NTOs, Celtel and ISPs) pay a 1% levy. The Fund is also accessing some donor funds. Primarily, UCC aims to use subsidies from the Fund to promote equitable distribution of communications services.

One specific target is to ensure that all sub-counties with more than 5,000 inhabitants have access to basic communications services by end-2005. So far, about 200 public pay phones have been installed. Another target is to support the establishment of an Internet point of presence (PoP) in every district of Uganda. So far, 4 PoPs have been installed on a commercial basis, and 20 under the RCD program. A contract was awarded for the remaining 32.

⁵⁴www.mtnvillagephone.co.ug

Thirdly, the use of ICT is supposed to be introduced in at least one “vanguard” institution in each district by 2005, to expose people to the potential of the new technologies. The use of voice services requires little skill, but applications such as Internet and short messaging service (sms) pose a challenge for the illiterate. Training centres have been established in 48 districts, offering a wide range of training courses in basic ICT skills.

In addition to activities related to the above objectives, the creation of district websites has also been facilitated under the RCD program and a district portal created at www.dip.go.ug. Content covers education, tourism, agriculture, trade and government; it is made available in English and three vernacular languages. However, according to the counter on the site, fewer than 9,000 people have visited the site; this is disappointingly low, given that some of those visitors are probably search engines. Clearly, the challenge of persuading rural Ugandans to use the internet remains.

When the impact of the RCD initiative has been assessed, it will be interesting to relate its achievements, using subsidies, with the achievements of careful regulation. While they are ultimately useful for different applications, observers will be interested to find synergies between the two.

E. Opportunities and threats

The Ministry of Works, Housing and Communications has played a vital role in setting the policy and strategic framework for telecommunications in Uganda; however, retention of qualified staff is a challenge. UCC has been responsible for interpreting and implementing the regulatory framework, and has made considerable investment in staff training. There are also some relevant regional projects (e.g. www.nettelafrika.org, www.catia.ws and www.aricea.org).

As competition increases among service providers, there will be an increasing need for concerted consumer influence. At present, there are two general consumers’ organisations, the Uganda Consumers’ Protection Association (UCPA) and the Consumer Education Trust (CONSENT). UCC has also established a consumer desk; nonetheless, this aspect will need more attention in future.

There are still various policy gaps, which need to be addressed; for example, there is no Competition Law in Uganda, meaning that the regulator has had to develop competition regulations specific to the sector. In addition, there is no tribunal, to which service providers can appeal.

F. Conclusion

The telecommunications sector in Uganda provides an important case study on how to regulate an industry in order to encourage both investment and competition. The achievements have been remarkable, but are still far from reaching the full potential of the market; in particular, people in rural areas are not benefiting fully from these services yet.

The application of subsidies to ‘prime the pump’, reaching rural areas with demonstration projects related to ICT, has not yet achieved its full potential. The end of the Exclusivity period, at the time of writing, is opening up important new possibilities and competition, for example around VOIP.

G. Recommendations

Enhancing reach of the service towards the poorest is already happening, albeit gradually; it is partly dependent on a ‘critical mass’ of middle-income Ugandans developing the habit of using such services. This will:

- stimulate demand among poorer Ugandans, through demonstration
- reduce prices through economies of scale (and possibly cross-subsidies)
- increase utility (as more people to contact, more content etc.)

Other measures by the industry include increasing the coverage of mobile and internet connections in rural areas, and making cheaper and more appropriate handsets available on a large scale. Innovation within the mobile telephony industry is also likely to be expanding the access frontier. Finally, the government could reduce the taxation on the industry, and particularly on airtime, in order to reduce prices further. Specifically:

Policy makers could extend access to telecommunications services by reviewing the current tax regime, particularly the tax on call time. Additional incentives could also be put in place to extend the mobile network further into rural areas, to reach more of the poor.

Experiences in the telecommunications sector could benefit other service sectors; insights gained in Uganda and elsewhere, for example around the importance of having an independent and capable regulator, could usefully be applied in other service sectors. Some training courses may also be applicable in other sectors.

Donors, in support of policy goals, can do much to encourage further adoption of telecommunications services, particularly by breaking the current cycle: the lack of electronic information relevant to Ugandans means that there is limited demand from Ugandans, and vice versa. Greater outreach will be possible if the market system is enhanced, than if subsidies are used to achieve temporary gains. For example, consumer education can be promoted, to inform Ugandans about what is available, and how they can benefit if they access it more.

The **private sector** has already demonstrated a capacity for investment and innovation, in order to serve people profitably at lower income levels than was previously thought feasible. Further experimentation and innovation can build on Uganda’s strengths.

5 EDUCATION

The education sector in Uganda is an example of a service market where service provision by government and the private sector co-exist. In addition, government plays other roles, including policy-making, regulation, training of teachers and coordination of the sector. The wealthy benefit as much as the poor from current government subsidy at the primary education level; meanwhile, the private sector is increasingly important in secondary education.

A. Brief history

Starting in pre-colonial times, missionaries founded primary and secondary schools in Uganda. Following Independence, government took over responsibility for denominational schools in 1963, although the founding bodies continued to be involved in their management. In accordance with the 1973 Education Act, the government:

- licenses schools
- sets and monitors education standards
- sets and marks examinations

The table below shows the numbers of the various types of educational establishment by 2004⁵⁵; the category of government-aided includes those schools started by church-related bodies.

	Government or Government Aided	Non-Government	Total	% non-Government
Pre-Primary	218	1,746	1,964	89%
Primary	11,072	4,267	15,339	28%
Secondary	784	2,861	3,645	79%
Post Primary	103	16	119	14%
Non-Formal	153	292	445	66%
Universities	4	11	15	73%
Other Tertiary	36	1	37	3%

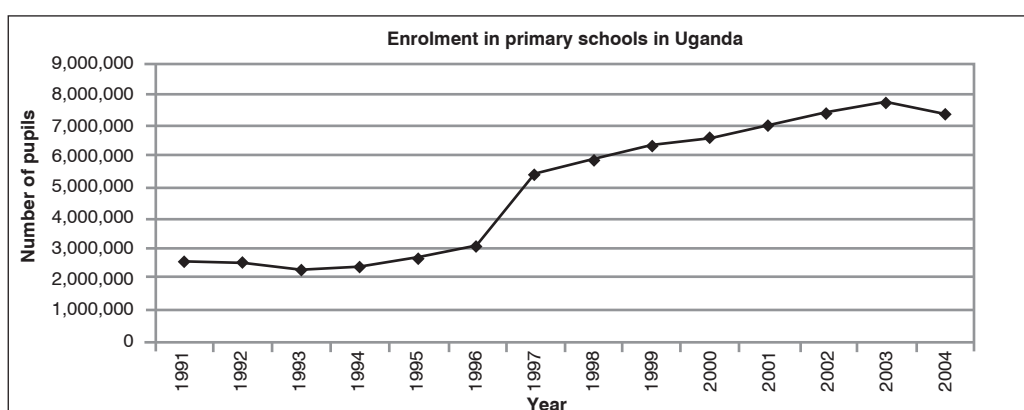
In terms of enrolment, the government accounts for a higher proportion of the total, since class sizes are bigger; specifically, government accounts about 91% of children at primary level, 53% at secondary, and 54% at University level respectively.

Pre-primary level education has grown out of private sector initiative; the government has realised its importance and is currently developing a policy for it.

Government provides most of the education at primary level, since introducing free Universal Primary Education (UPE) in 1997. Consequently, government has focused its resources more on UPE than on other levels of education, and there has been tremendous growth in enrolment, as depicted in the graph⁵⁶ below:

⁵⁵Draft Education Sector Fact File, December 2004

⁵⁶Data from Uganda Education Statistics Abstract 2003



The secondary school sector is described in Section D (Illustrative case study) below. Tertiary education was historically the domain of government, but recently, many private establishments have also opened.

B. Unique features of this service sector

One unique feature of the education system is the level of standardisation at all levels (with the exception of universities). All institutions, regardless of ownership, use the same curriculum, have the same calendar, sit the same exams, and employ teachers trained through the same institution. It is a merit-driven system; hence, competitive advantage is derived from excellence in academic performance. The role of teachers is therefore central.

C. Current service provision by commercial providers

The Table below provides an overview of all providers and their characteristics.

	Government	Government grant-aided	Non-profit	Private for-profit
Founded by	Government	Religious bodies, parents, or entrepreneurs	Religious bodies, individuals or communities	Entrepreneurs as a commercial venture
Funding Sources	Depends fully on government funding to cover its operational costs	Founding institutions, income-generating activities. Also government grants, for materials, teachers	Donations from founding bodies, fundraising, or income generating activities	Private capital
User Fees	Small user fees are charged. Government believes parents should contribute to education, although costs mainly subsidised	Higher user fees are charged, although still subsidised	Higher user fees are charged, although still subsidised	User fees charged to cover costs, make profit. Level depends on market; may be lower than government
Access	A part from primary education, access depends on academic performance	Access depends on academically performance and ability to pay	Access depends on academic performance, other social objectives	Access largely depends on pay
Education Quality	Tends to be poor	Tends to be good	Tends to be average	Depends on the level of investment
Taxation	Not Taxed	Not Taxed	Not Taxed	Taxed

Sources: Uganda Education Statistical Abstract 2003 and views from some providers and regulators

Net primary school enrolment has gone up from 2.3m children in 1996 to 7.5m children in 2004⁵⁷, giving an estimated Net Enrolment Ratio of 86% (with approximate gender parity). This suggests that perhaps 64% of the poorest Ugandans are accessing primary education, essentially provided by a government school. Interpretation of the statistics is challenging, though, as 75% of children start school late, and only 24% of boys and 21% of girls in the 2003 UPE cohort completed P7 of the primary cycle⁵⁸.

While the education is nominally free of charge, the 2004 National Service Delivery Survey found that payments were often requested⁵⁹. There are also other associated costs, such as transport and space to do homework. Indeed, 63% of those dropping out of school cited cost as the main reason⁶⁰. This suggests that it may be hard for private primary schools to expand their outreach to the poorest levels of society.

The transition rate from primary to post-primary education rose from 35% in 1997 to 50% in 2002. While increasing access to secondary education is not a Millennium Development Goal, it is clear that the private sector can help to meet the great demand created by the success in UPE. It is less clear, however, what proportion of the poorest can access private secondary education.

On the other hand, the wealthy benefit from public spending at least as much as the poorest do, as the Table⁶¹ illustrates:

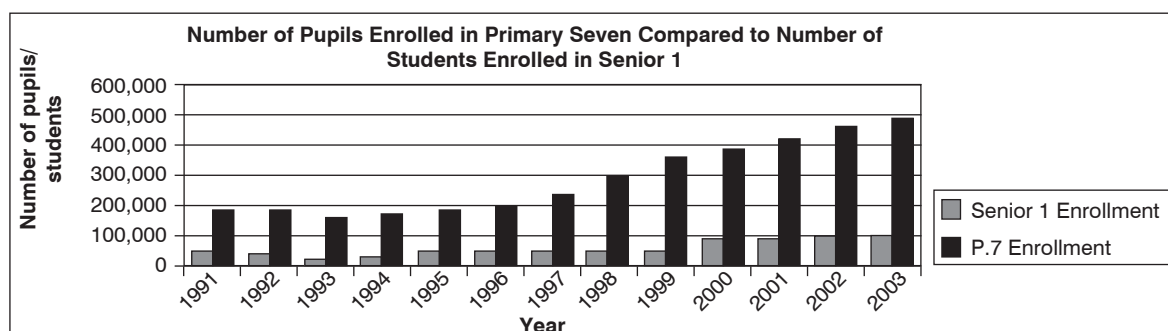
Share of Public spending on education		
	All education spending	Primary education only
Poorest fifth	13%	19%
Richest fifth	32%	18%

This seems to indicate that, while UPE has achieved an equitable (if not a targeted) outcome, the wealthy are benefiting disproportionately from government subsidies for secondary (and perhaps also tertiary) education. This will be explored in more detail in the following Section.

D. Illustrative Case Study: Secondary Education

Private secondary schools began emerging in Uganda during the 1970s and 1980s, due to the economic decline. Parents, through Parent-Teacher Associations (PTAs), began to get more involved, since the government could not guarantee support. These PTAs focussed on the welfare of staff, for example by topping up teachers' salaries. Eventually, PTAs started involving themselves in other areas, such as capital development and ensuring standards.

As the numbers of students grew, without corresponding growth in the number of schools, parents and other community members, private companies and, later, individuals started establishing private schools to cater for those students who could not be absorbed into government schools. Private schools were at first seen by government as competitors, rather than partners, in the provision of education. Consequently they were taxed, and ultimately the secondment of teachers was also stopped.



⁵⁷Common Country Assessment of Uganda, United Nations, 2004

⁵⁸Common Country Assessment of Uganda, United Nations, 2004

⁵⁹National Service Delivery Survey, Uganda Bureau of Statistics, 2004

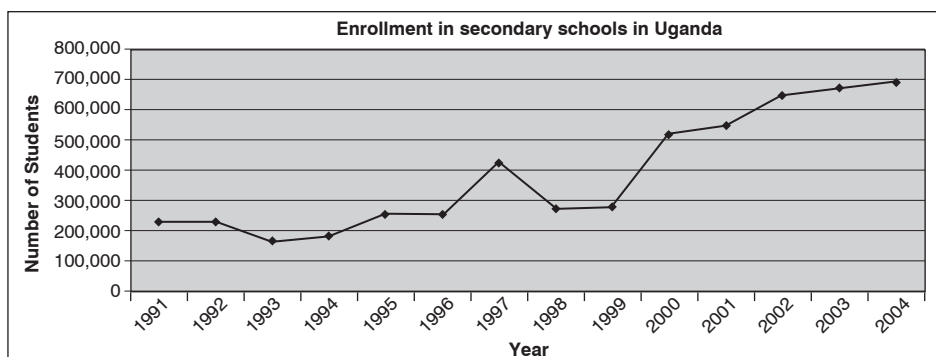
⁶⁰National Household Survey, National Bureau of Statistics, 2002/3.

⁶¹World Development Report, World Bank, 2004. Fig. 2.5, p 39

With UPE in 1997, total primary school enrolment increased by 60%, and this has increased the demand for secondary school places that could not be met by the existing secondary schools - as illustrated in the graph on the previous page⁶².

Nonetheless, total enrolments in secondary schools have increased over time, as shown in the graph below.

The private sector has played an important role in this expansion; according to the annual school census of 2003, 64% of secondary schools were funded entirely from private sources, and received no government funding.



Increased demand is not the only way in which private-sector secondary schools have benefited from UPE; the government also stopped recruiting secondary school teachers, in order to focus resources on primary education. Meanwhile, universities and other teacher training institutions have continued to produce trained secondary school teachers, who must now find jobs in private schools.

The Table below segments the secondary schools market (all providers) in order to understand the extent to which it is serving the poor.

Category	Providers	Features
"A" (best)	<p>Mostly government granted-aided, with religious foundation</p> <p>A few private schools</p>	<ul style="list-style-type: none"> Excel in academic performance. Almost all the students go on to University, many on government sponsorship Good teaching and learning environment Well-developed infrastructure Provide holistic education Select top-performing students with excellent performance, both for O and A level Majority of the students are from wealthy middle-to-high class families
"B"	<p>Mostly government granted-aided</p> <p>A few government, not-for-profit and private</p>	<ul style="list-style-type: none"> Good performance; majority go on University Good teaching and learning environment Provide holistic learning Select the second best students Discipline is emphasized Majority of the students are from middle class to average income families
"C"	<p>Mostly government, not-for-profit and private</p> <p>A few government granted-aided</p>	<ul style="list-style-type: none"> Average academic performance; some go on to University, mostly self-sponsored Admit a mix of students: those with academic performance but unable to pay, and those with poor academic performance but to pay Relatively good teaching and learning environment Students from middle and not so poor families
"D" (worst)	Government and private schools	<ul style="list-style-type: none"> Poor academic performance both O and A level Poor teaching and learning environment High student to teacher ratio Admit mostly poorly performing students from UPE schools Charge low school fees Almost all the students are from poor families

⁶²Data from Uganda Education Statistics Abstract 2003

All secondary schools charge user fees. The good secondary schools (A and B, above) attract the best students, and these are likely to be the less poor. Consequently, students from low-income backgrounds who perform fairly well, and can afford to pay a small amount, still have to choose from the worse schools.

This tends to exclude them from accessing free or government-subsidised tertiary education, and they may not be able to afford the fees charged by private providers. In short, the current education system subsidises (particularly through grant aid to denominational schools) those who have the ability to pay for commercially-provided services, while excluding those who may not be able to afford them.

The perspective of owners of private secondary schools

Despite the growth in demand from students, stimulated by UPE, and despite the growth in supply of teachers, owners of secondary schools face an increasingly competitive environment. One reason for this is that the growth in secondary schools has not been matched by growth in tertiary level education provision. Government sponsorship to tertiary institutions is now only available to the best students, so those secondary schools that achieve the greatest number of University entrants, particularly on government sponsorship, become very attractive and increase their enrolments.

While academic excellence is the best way to compete, private secondary schools are also adopting other strategies. Some schools have responded to competition by increasing efficiency and improving their capability, by employing professional managers. Some are increasing the volume of students in their existing facilities, while others are targeting low-income communities in peri-urban areas, charging low user fees but aiming for high enrolments.

One school, for example, is building a branch in Kabowa, a densely-populated suburb of Kampala, targeting low-income people. It will charge \$67 per term for day-students and \$120 per term for boarders. This is much lower than the average of \$200-400 for Kampala. The school will have a capacity of 1,000 students.

Other schools are targeting rural, low-income communities, or urban areas in remote and poor districts. For example, Kakungulu Senior Secondary School is located in Luweero District, in a sub county without a government school. It is charging just \$28 per term for boarders, and has a student population of about 1,000. Similarly, a school in Arua, in the poorest regions in the country, charges \$25 per term, and is considered one of the best schools in terms of academic performance. This compares favourably with the reported average monthly consumption expenditure per rural household of about Ushs 113,300. However, no data are currently available on access by the poorest to privately-provided secondary education.

Some schools have concentrated on arts subjects, since they are generally easier to pass, and require lower investment. The government has responded to this by introducing a new regulation, requiring all secondary schools to offer science subjects. This will require heavy investment in science labs, computer labs and expensive textbooks that will be difficult for most schools to afford. If enforced, this regulation could drive many schools out of business.

Competition has driven down prices, improved academic performance, improved quality (particularly in urban areas), and increased access in rural areas - serving people who otherwise would have been excluded. However, it has also had some negative impacts:

- Schools have tended to concentrate on academic teaching rather than on holistic learning.
- Some schools have enrolled too many students, compromising academic performance.

- In low-income areas, access and price seem to be more important than academic performance or quality. Some schools have taken advantage of this, by employing unqualified teachers, and paying them poorly.

Anecdotal evidence suggests that, even in rural areas, private schools tend to be preferred to schools run exclusively by the government, even when the latter has better facilities or is charging less. This observation is confirmed by data from the Ministry of Education, which shows that in some rural areas served by both private and government schools; enrolment is higher in private schools than in schools run exclusively by the government.

The reasons put forward for this scenario are that, compared to private schools, government schools are poorly managed and supervised; teachers are less motivated because of low salaries and delays in payment. In addition, private schools tend to be less bureaucratic in admission procedures, implementing flexible payment plans (instalments, in-kind etc.)

There is an umbrella body for private schools in Uganda, called the National Private Schools Association; it covers primary, secondary and tertiary schools, and has a branch in every district. It aims to lobby policy-makers on behalf of members, promote best practice in governance and management, and participate in the setting of exams. However, the Association is weak in both institutional capacity and resources; their only source of income is membership fees.

E. Opportunities and threats

There are still opportunities to invest in education provision, in both secondary schools and vocational training schools. In the current year, the government aims to increase the transition rate from primary to senior one from 50% to 80%. To achieve this, the government is trying to establish a secondary school in every sub-county. However, this is still not sufficient, hence the need for private sector involvement.

Similarly, there are large export markets for secondary education, for students from neighbouring countries - to the extent that the Uganda Export Promotion Board is now considering how to enhance it.

Commercial schools have great difficulty in accessing finance (both working capital and term financing) from formal financial institutions because they cannot present bankable proposals. In addition, because they do not keep proper financial records and prepare financial reports, they sometimes end up paying high taxes. This represents an opportunity for providers of management training and advisory services, and for bankers and other financial service providers.

Commercial secondary schools face unfair competition from government-subsidised schools, which normally take the best students - who generally come from more wealthy families. This leaves the private sector to take on academically poor students, often from poorer families.

The Ministry of Education and Sports has set standards for education quality at all levels, but it does not have the capacity to enforce them - particularly given the increasing numbers of providers in the private sector; the school census of 2003 found that 16% of the private schools were neither registered nor licensed. The industry association is still too weak to take on a regulatory function; it does not even have a secretariat.

As noted earlier, a new regulation requiring all schools to invest in science labs, if enforced, will force many schools out of business, particularly in rural areas.

F. Conclusion

Following the government policies of privatisation and liberalisation, the commercial secondary education service sector has grown and is already serving the poor profitably. Lack of capacity to enforce the strict education standards seems to have somehow favoured growth in the sector. This service market has developed without donor subsidies or other interventions. Competition, rather than government rules and regulation, has affected price, academic performance and rural outreach.

G. Recommendations

Enhancing reach of the service towards the poorest will become increasingly important in the coming years, as UPE generates great demand for secondary education. Additional resources would be needed if government is to meet this demand through new and expanded schools, and those resources might be found by diverting subsidies from the wealthy to the poorest. Alternatively (or in addition), the private sector may try to meet this demand.

In that case, unnecessary extra costs can be avoided if regulatory measures are kept to a reasonable level; parents will anyway need to rely on the reputation of each school, to guide their choices. Policy makers and donors can therefore stimulate private-sector provision in various ways, for example through the flow of information to, and between, parents.

Policy makers, in addressing the objective of equitable access, could review the current government subsidies to schools that admit students whose parents are able to pay for commercially provided education. Those funds could be used to reduce access costs for those who are currently excluded because of their inability to pay.

At the moment, government as a provider is competing within the sector that it is also seeking to regulate. This is likely to cause a conflict of interest; hence, it is desirable that the two roles are separated. It would also be helpful if government had greater capacity to oversee the operations of for-profit providers. However, it is unlikely that a stronger regulatory regime will be constructive; instead, policies should allow for fair competition within the sector.

Donors, in support of policy goals, could build the capacity of the private sector, for example through stimulating a training market in the skills needed to run a private school. Donors could also extend the access frontier, by stimulating the flow of information about schools, for example to cover location, fees, courses, some measure of quality etc.

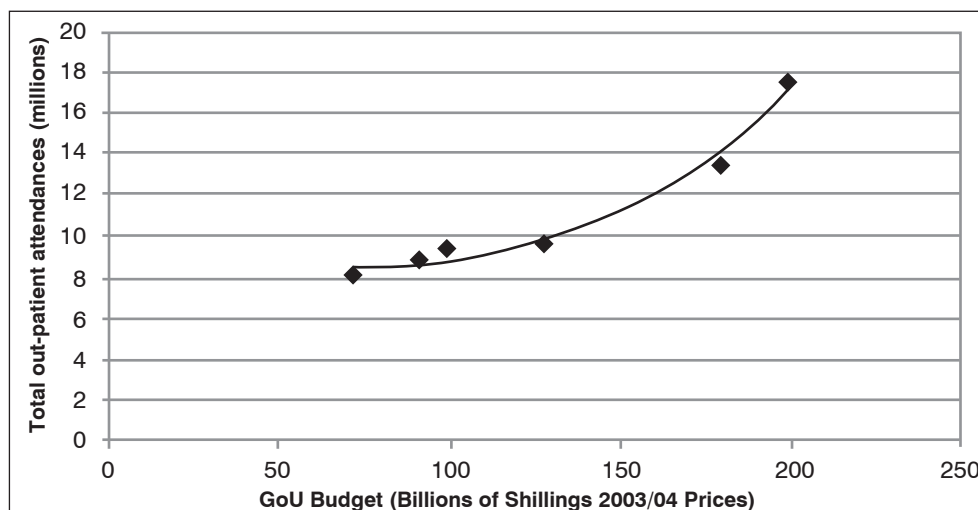
Private Sector education providers are already taking a lead in service provision, but could still be more proactive in influencing the business environment in which they are operating; this could be achieved by participating more fully in their association. They could also strengthen their businesses by acquiring management training and advisory services.

6 PRIMARY HEALTH CARE

User fees were abolished at government health care facilities in 2001, and this has led to greater uptake by the poorest Ugandans of individual-oriented, clinical health services provided by the government, and to improved health outcomes. In practice, though, various transaction costs and unofficial charges remain, and the poorest are also still using private health facilities. At the same time, wealthier Ugandans are also benefiting from the subsidies. Some important policy implications can be deduced from the current situation, particularly in terms of the training of health care professionals, and the more targeted use of public funds.

A. Brief history

Because of the economic difficulties during the 1970s and 1980s, informal charges were levied in government health facilities, even though treatment was supposed to be free. The practice was formalised in the early 1990s, but a later review led to their abolition in 2001; the 75% increase in the government's budget (see graph) has been greatly assisted by donor contributions. Since abolition of user fees, outpatient attendance at public facilities has increased by about 80%; in particular, the proportion of the poorest 20% who seek medical care has risen from 46% to 72%⁶³.



Source: Rob Yates, Uganda Ministry of Health, Lessons from the Uganda Health Financing Reforms, Kampala, 2003

Moreover, total household expenditure on health services by this group has fallen by 13%⁶⁴, and there are signs that poor people are falling sick less often and are less incapacitated due to illness⁶⁵. 66% of respondents in one survey considered that public health services had improved since 2000⁶⁶. Nonetheless, government facilities are still often perceived as overcrowded, with long queues for doctors and consultants. Staff are poorly paid, and sometimes poorly motivated in their work. Drugs are often not available, and must be purchased outside. It is therefore important to review the other types of health care provider in Uganda:

- facilities operated by faith-based, not-for-profit organisations
- private (for-profit) health care providers
- traditional healers

⁶³MFPED: PEAP Revision Draft, August 2004, Kampala, as cited in Common Country Assessment of Uganda, United Nations, 2004.

⁶⁴Deininger K and Mpuga P, Economic and welfare impact of the abolition of user fees: Evidence from Uganda. World Bank Working Paper 3276, 2004

⁶⁵Yates R et al, The Ugandan health systems reforms: miracle or mirage? Ministry of Health, 2005

⁶⁶National Service Delivery Survey, Uganda National Bureau of Statistics, 2004. p36

The boundaries between public and private health-care service providers are rather blurred in Uganda. Faith-based not-for-profit providers received Ushs 16.6 billion (\$9m) in government subsidies in 2002-3, covering 30% of their total budget⁶⁷. This represents an increase, relative to 1998/99, when government subsidies covered 15% of their total budget. The balance at that time came from user fees (45%), foreign donors (20%), and other income-generating activities (19%).

For-profit health care providers developed rapidly in the 1990s, mainly in Kampala. In 1997, the government stopped recruiting medical professionals; the training institutions, however, continued to train doctors, midwives, nurses, pharmacists and others. As a result, there has been (as with education) a surplus of trained professionals on the labour market, creating good conditions for expansion of private sector provision.

A World Bank study in Uganda in 2003⁶⁸ concluded that:

“Religious not-for-profit facilities hire qualified medical staff below the market wage, are more likely to provide pro-poor services, and services with a public good element, and charge lower prices for services than for-profit facilities, although they provide a similar (observable) quality of care. Religious not for profit and private for-profit facilities both provide better quality care than their government counterparts, although government facilities have better equipment.”

Traditional healers have not been surveyed extensively in Uganda, but it is believed that there are up to 500,000 in the country as a whole. One researcher working elsewhere in Africa⁶⁹ concluded that:

“traditional healers are a source of health care for which Africans have always paid and even with the expansion of modern medicine, healers are still popular ... their success may not come from either supernatural power or gullible clients but rather from the contract used to deliver high quality care. Health economists have long known that the ‘pay only if cured’ contract, or outcome–contingent fees would resolve many market failures in the delivery of health care, however, they have assumed that such contracts could not be implemented ... not only are traditional healers using this important economic arrangement to deliver care, this practice has the predicted impact on patients’ perceptions of quality.”

The same research does include some detailed interviews with traditional healers elsewhere in Africa (including Tanzania) which are quite revealing, at an anecdotal level, about how these people work. It is difficult to add more here, however, without more systematic research within Uganda; donors should therefore consider supporting additional research into this important group of health-care providers.

In recognition of the role played by the private sector, the government has drafted a National Policy on Public Private Partnership in Health (October 2003), as a way to achieve the broader national health objectives. This topic continues to be vigorously debated in the literature; a recent WHO Bulletin, for example, carried an article proposing a franchising model for primary health care in Africa⁷⁰.

⁶⁷National Policy on Public Private Partnership in Health, Ministry of Health, Final Editorial Draft, October 2003

⁶⁸Working for God? Evaluating service delivery of religious not-for-profit health care providers in Uganda, by Ritva Reinikka and Jacob Svensson, World Bank Policy Research Group, Policy Research Working Paper, www.psp-one.com/content/resource/detail/2404/

⁶⁹African Traditional Healers: Are they as good at Economics as they are at Medicine? by Kenneth Leonard, Department of Economics, Columbia University, USA, February 2001. www.columbia.edu/~kl206/papers/trhl_pd_pr.pdf

⁷⁰Private sector, human resources and health franchising in Africa, by Ndola Prata, Dominic Montagu and Emma Jefferys Bulletin of the World Health Organisation, April 2005

B. Unique features of this service sector

This Chapter focuses on clinical health care (rather than on preventative medicine, which is a classic public good); clinical health care for individuals is of core interest to everyone, so discussions tend to be more intense than those around other services. Indeed, the most frequently mentioned cause of poverty in two recent participatory poverty assessments was poor health / disease⁷¹.

However, the sector is also characterised by a great asymmetry of information. Patients find it difficult to attribute their health status to a specific course of action, and this makes them imperfect judges of health care providers. It has been suggested that “people tend to base their assessment of the quality of service they receive on the drugs they are prescribed. A big bag of pills is better than a small bag - and an injection is better still.” This situation confers considerable power on health care providers of all kinds.

Enhancing service quality is therefore a priority; one option would be to increase the volume of regulation and enforcement of standards by government, or some other body such as a medical council. This is not likely to be feasible for private facilities in rural areas for some time to come; indeed, it is hard enough, given the technical complexity, to assure quality in publicly-run facilities. Other options should therefore be explored; in particular, informed consumers could play a great part in understanding their own health care needs, and selecting an appropriate provider to meet those needs.

Another unique feature of this service sector is the existence of very large numbers of traditional healers - who in practice often constitute the ‘front line’, or health care providers of first resort. These people operate on a world view that is largely different to that of ‘western’ medicine, so from a medical point of view, it is probably not feasible to aim to integrate them into the mainstream medical system. Nonetheless, the government will ultimately need to identify ways to build a relationship with them that makes sense for both sides.

C. Current service provision by commercial providers

The Table below summarises the available data on incidence of health care provision by the different types of provider. Unfortunately, though, much of the data on commercial and traditional providers is anecdotal. Nonetheless, they give some impression of the overall situation.

	Public Sector	Faith-based not-for-profit providers	Commercial Providers	Traditional healers
Hospitals % (number)	50% (56)	41% (45)	9% (10)	0%
Large clinics, % (number)	93% (143)	5% (8)	2% (3)	0%
Other clinics, % excl. traditional	35% (1495)	12% (509) 500,000)	53% (2239)	(approx. 300 -
Financing	<ul style="list-style-type: none">• Government, development partners• User fees from private wings projects	<ul style="list-style-type: none">• User fees• Subsidises from government• Donations• Income-generating	<ul style="list-style-type: none">• User fees	<ul style="list-style-type: none">• User fees

⁷¹Common Country Assessment for Uganda, United Nations, 2004

	Public Sector	Faith-based not-for-profit providers	Commercial Providers	Traditional healers
Location	Mainly urban	Urban, rural rural	40% urban, 60% rural	Rural
Characteristics for the poor	No user fee, but transaction costs are high, so often used as a last resort	User fee and significant transaction costs. Mostly used for complicated cases if people can afford it	The services are relatively fast, friendly, accessible, flexible	Very local, convenient and with continuity, so some assurance of quality

S□

The Table on the right shows the current usages, with categorisations added, according to two recent surveys:

The discrepancy between these figures points to some of the challenges of collecting accurate statistics in this field. In particular, the reported incidence of seeking traditional medical attention (1%) seems surprisingly low. It implies that 253,000 people sought traditional attention during the year, whereas it is estimated that there are up to 500,000 traditional healers in Uganda. This calls for additional research to understand the dynamics of this sector.

Type of medical attention sought	% ⁷²	% ⁷³
<i>Probably private</i>		
Private clinic	36	28.6
Drug Shop	13	17.8
Home treatment	11	10.6
Dispensary	6	
Pharmacy	1	
Traditional doctor	1	1.1
Total private	68	58.1
<i>Probably government</i>		
Health centre	11	
Outpatient in hospital	9	
Inpatient in hospital	2	
Total goovernment	22	38.2
None	7	3.8

The number of commercial health-care providers seems to be increasing in both urban and rural areas. According to the 2002/3 National Household Survey, for example, attendance at private clinics in rural areas has increased by 26% since 1999/00; visits to rural drug shops has increased by 40%.

It is important, within such overall trends, to understand how usage by the poor is changing; as the 2004 World Development Report⁷⁴ noted, “worldwide, ... richer groups ... use public facilities more – which indicates that subsidies are not ideally targeted.” In Uganda, the richest quintile and the poorest quintile both use a mix of public and private health-care facilities, depending on the type of treatment:

A somewhat similar trend is apparent in the treatment of acute respiratory diseases⁷⁵:

Proportion of births attended in health facility			
	Public, %	Private, %	Total, %
Richest fifth	39	29	68
Poorest fifth	15	8	23

Proportion of children with fever and cough seen by a health professional within 2 weeks			
	Public, %	Private, %	Total, %
Richest fifth	26	49	75
Poorest fifth	22	27	49

Source: 2004 Word Bank WDR (Fig. 8.7)

“Most of those who sought medical care at any socio-economic level did so through the private sector. Moreover, of those who were ill, the difference in use of private services between the rural poor (38%) and the rural rich (48%) was not statistically significant. The public sector facilities for treating children with respiratory infections were used by only a small fraction across all socio-

⁷²Uganda National Household Survey 2002/3

⁷³National Service Delivery Survey, 2004

⁷⁴World Development Report 2004, World Bank, Washington DC (ch8:136-8)

⁷⁵Private sector, human resources and health franchising in Africa, by Ndola Prata, Dominic Montagu and Emma Jefferys Bulletin of the World Health Organisation, April 2005

economic groups. Nevertheless, even the rural poor made significantly less use of the public services (11%) than the rich (24%).”

There are various reasons for this, one being that there are still costs involved with accessing government health facilities. The National Service Delivery Survey of 2004, for example, reported that about 50% of patients paid for services in government health facilities⁷⁶. About two thirds of these payments were categorised as “Official requirement”, and one third as “Demanded”. Compared with the second national integrity survey, the frequency of payments had gone up; antenatal and birth delivery care were most often associated with demands for payment.

Similarly, a study of patients with sexually-transmitted diseases⁷⁷ reported that:

“Many patients said that they would prefer to go to the government health centre because private clinics were expensive, although usually they also had to pay at government clinics. As one focus group participant mentioned: ‘the problem with the primary health centres is that you have to give money to each and every health worker that attends you . . . but in private clinics or hospitals, you just pay once’. Another person said, ‘the treatment you get in the primary health centre is in relation to the amount of money you pay’ and they ‘are the same as the private clinics because in both places, you need to pay’.”

These patients also preferred to go to private sector clinics rather than to primary health care centres run by government, because of concerns about confidentiality.

Another factor is location; private providers, particularly in the form of drug shops, often have an advantage of being closer to the rural poor than government health facilities. According to the National Household Survey, drug shops were an average of 2 km away from rural people, while clinics and health centres were, on average, 4 km away. Hospitals were 13 km away from rural people, on average, and indeed most major public hospitals are located in the largest towns.

Very often, poor people will muster whatever resources they can, in order to pay for medical treatment when emergencies arise. In order to do this, they have to sell assets, often at reduced prices because the buyer is aware of their predicament. In effect, therefore, assets of the poor act as a rather inefficient insurance scheme; alternative insurance schemes are therefore consistent with existing strategies of the poor, but potentially more efficient.

The insurance industry is, in some ways, a separate market, and various Papers already outline its current state⁷⁸. However, there are various insurance-related initiatives demonstrating the potential at present in Uganda to reach people living in poverty with affordable health care, and two of these are described briefly below.

Health care financing: Microcare Ltd

Microcare⁷⁹ started with donor support in 2000, to research and develop alternative mechanisms for health financing for the low-income market. It is focusing on health management and insurance, particularly in accident and health. The company has established a health management system which is designed to minimise fraud through the use of photo IDs for clients, real time data processing, and negotiated contracts with over 50 private health care providers (Microcare has its own check-in desks in 10 of these providers).

⁷⁶Second National Service Delivery Survey, Uganda Bureau of Statistics, 2004

⁷⁷The quality of care by private practitioners for sexually transmitted diseases in Uganda, by Walker, Muyinda, Foster, Kengeya-Kayondo and Whitworth, Health Policy and Planning, Oxford University Press, 2001

⁷⁸See for example www.microfinancegateway.com/content/article/detail/25380

⁷⁹www.yearofmicrocredit.org/docs/HIVAIDSandmicroinsuranceinMFsectorinAf-finalreport.pdf

Initially, it offered insurance to clients of the micro-finance institution Finca, at a premium of \$5 per month. This covers out-patient care and a maximum of 3 weeks hospitalisation in 3 months, for four members of the family. There is specific exclusion for HIV/AIDS. The company reports that the scheme would break even, if premiums were increased by 25%.

However, the major cost is marketing, since such an insurance product is totally unfamiliar to low-income groups; in general, marketing to low-income workers in the formal sector has been easier than marketing to the clients of micro-finance institutions. Nonetheless, there is a more general suspicion of insurance products, arising in part from previous problems in the banking sector; there was also a massive devaluation in 1987, which left life insurance policies essentially worth nothing.

Currently, Microcare has 17,000 clients in the informal sector and 10,000 in the formal sector; it estimates, however, that it needs at least 50,000 to be viable. It is therefore keenly pursuing new clients, for example among workers on tea plantations where larger groups can be formed, in order to achieve economies of scale. It is also in dialogue with the health care providers, to evaluate the quality of the health care and to establish clinical protocols.

Health care financing: Commercial Market Strategies (CMS)⁸⁰

CMS, a project financed by USAID, collaborated with Uganda Health Cooperative (UHC) to set up pre-paid health care plans to help the rural poor access this service. The average yearly premium for the family of four was Ushs 48,000 (about \$26). Similarly, a for-profit commercial health care provider was contracted with 12 schools to provide coverage to 9,000 students between the ages of 7 and 19. Enrolees paid a small annual fee that was included with their school fees; a small co-payment was also charged at the point of service.

Contrary to expectations, the elimination of user fees by government facilities did not result in a significant dip in enrolment. Plan members have been willing to continue paying premiums and obtaining services at facilities that charge fees, probably because the services were perceived to be of higher quality.

If health insurance can be made available at under Ushs 10,000 per month for a household, this may be within reach of many households. The National Household Survey found that rural households spent an average of 5% of their total expenditure on health costs, suggesting an average Ushs 5,665 per month spent on health.

D. Illustrative case study: Jackie's clinic, Bunga

Jackie's Clinic is located in Bunga trading centre, 8 miles from Kampala city centre. It is owned and operated by a midwife named Akiiki. Akiiki was formerly employed in a clinic operating in the same neighbourhood. She quit her job and set up Jackie's Clinic in the early 1990s. Initially, she operated from two rented rooms, offering basic outpatient health care services to people within the immediate community. The majority of her clients were poor people working in the informal sector such as women operating market stalls, fishermen, taxi operators etc.

Over time, the clientele increased and another nurse was employed, laboratory services introduced, and a part-time doctor started coming in the evening. This increased the demand for services from higher income groups and led to growth in the business. Akiiki decided to expand the business; she started to construct a building using income from the clinic. In less than two years, the ground floor was complete, and she moved into the premises.

⁸⁰Country Profile: Partnering with the private sector to meet Uganda's health care needs, Commercial Market Strategies, 2003. www.psp-one.com/files/1007_file_56_Country_Profile_Uganda.pdf

Having bigger premises enabled her to provide inpatient services on a small scale, as well as other services like dental and maternity. This led to further growth in the business and within one year, the construction of the building was completed. Currently Jackie's clinic is in full operation with the following facilities:

- 14-admission rooms
- a fairly well equipped laboratory with full time staff
- facilities for maternity services
- a well stocked pharmacy with full time staff

10 people work there, including 3 doctors, 1 dentist, 2 lab technicians, 3 nurses and a cashier. Akiiki still manages the business personally. The doctors and the dentist are not on her payroll, but instead take a percentage of the consultation fees.

Jackie's Clinic has a stable clientele to the extent that clients continue coming to the clinic even after they move out of the neighbourhood. She currently serves clients from a radius of more than 8 miles. Akiiki is a trusted member of the community and knows all her clients personally. One of her clients testified about the flexibility of her services:

"She can provide care at your home if requested. When she gets a complicated case, she personally takes the patient to Nsambya hospital, She trusts her clients, and treats them even when they don't have cash. She is so polite even when clients delay to pay. For example when she once wanted to recover money from me, she inserted the demand note in a Christmas card and had it hand delivered to my house. I paid immediately"

Akiiki has a challenge of financial management. She fears that her employees will cheat her, and hence handles the finances personally. However, being a midwife by training, she does not have the business skills to keep accounts, and cannot therefore prove her income to the Uganda Revenue Authority. She therefore feels that she is subject to arbitrary and very high taxes.

This case study illustrates some of the characteristics commonly (but not always) found in commercial health providers:

- a commitment to long-term relations with the patients, and therefore a high degree of accountability
- an ability to acquire at least some of the necessary skills, and to leverage their assets to recruit highly qualified health professionals
- similarly, the ability to build facilities, probably incorporating an element of cross-subsidy from the more wealthy patients to the poorer ones
- the lack of management skills, leading to problems which threaten the whole enterprise, but which could have been avoided

E. Opportunities and threats to the health care industry

Health care financing

While private health care providers offer many attractions to even the poorest households, affordability is of course going to be the major barrier. However, this is often exacerbated by circumstances that may be avoidable; when a medical emergency arises, for example, poor households may try to liquidate their assets, but purchasers may know that it is a distress sale, and therefore not pay a full market price. In effect, therefore, the poorest households may be paying far more for their health care, in various ways. One possible solution to this problem may be health insurance, if it can be offered at an affordable price.

The Ministry of Health, and the Ministry of Gender and Labour, are both therefore considering comprehensive, government-run insurance schemes; Cabinet is currently being considering a draft Bill. Such schemes might involve a compulsory deduction for salaries of formal sector workers, to provide free health services to the employee and associated family. Private clinics would be accredited to provide health care services.

However, such schemes may be difficult to implement in a transparent and cost-effective way; they might also result in a two-tier system, one for civil servants and the formal sector, and the other (operated by commercial health management and health insurance organisations) for the rest of the population. If so, it may deprive the commercial organisations of the opportunity to achieve greater economies of scale, and even to achieve an element of cross-subsidy, between the poorest and the less poor.

Quality of health care

Commercial health care providers have played a recognizable role in bringing services closer to the people. However the quality of health services particularly in rural and peri-urban areas is not up to the officially-required standard. There are a big number of informal players, often without the required qualification; however, they are generally providing health care services where there is no alternative, and their clients are reportedly very reluctant to see them closed down.

It is a requirement that health professionals who wish to engage in private practice obtain a licence, according to the relevant Statute. The various professional medical councils do the registration and licensing of private health care providers; they are supposed to collaborate with the Ministry of Health to carry out inspections of health care related facilities. However, this is not adequately done because of limited capacity and resources.

Given these constraints, commercial providers could regulate themselves through their respective umbrella organisations, particularly the Uganda Private Medical Practitioners Association for doctors, and the Uganda Private Midwives Association for midwives. However, these associations at the moment do not have the capacity to perform a supervisory and regulatory function either.

Another possibility is that health care consumers exert some influence over the quality of care provided, and indeed there is a nascent Uganda National Health Consumers' / Users' Organisation (UNHCO). It has conducted a baseline survey on patients' rights, and studied patient feedback mechanisms at health care facilities. Some of the findings were not surprising; for example, patients in government health units were found to have the longest waiting periods. Nonetheless, the emergence of such a body may be an important step in developing health care services in Uganda.

Training of health care providers is another avenue for upgrading the quality of provision. Government operates 30 training facilities for medical staff, with the not-for-profit sector operating a further 18. There are reportedly a few in the private sector, too. Government sets the curricula; pre-service training is currently the responsibility of the Ministry of Education and Sports.

As the case study presented above shows, however, health care providers in the private sector may lack the management skills they really need. A USAID-funded project, Partners for Health Reform Plus (PHRPlus), is collaborating with the "PPP for Health" desk of the Ministry of Health to provide management skills training for staff of existing clinics in the private sector.

However, it can be difficult for people who are already working in these clinics to find the time for such training. In their view, access to finance can be a more critical constraint (although clearly this is related to management skills). It may therefore be more feasible to incorporate such skills into a new course and qualification around clinic management; currently, many clinics are run by people who are trained as nurses, and who have therefore tried to pick up the skills they lack, while running their clinics.

F. Conclusions

User fees within the public health sector have been abolished, and this seems to have resulted in important pro-poor health outcomes. Nonetheless, many poor Ugandans are still choosing to use private health-care services. Regulation of these private sector service providers is weak; as in many other areas, government licensing and inspection regimes are under-funded. In primary health, however, the technical challenges are particularly acute, and as a result, supervision is currently ineffective. Reputation remains the most effective form of regulation for the time being.

The quality of clinical care provided by private providers is variable - as indeed is the quality of health care provided by public providers. Cost is a major obstacle to accessing health care from private providers, but there seem to be a number of formal and hidden costs associated with accessing public health care too.

The true role of traditional healers remains a mystery; they are reported to be numerous, yet surveys find very little uptake of their services.

Payment for health care remains a problem, not least, as poor people tend to liquidate their assets under distressed circumstances in order to pay for medical bills. Pilot work has shown that health insurance can be provided at premiums around \$5 per month (depending on the volume), which brings the concept into the reach of people living in poverty (although not the poorest of the poor).

G. Recommendations

Enhancing outreach of the service towards the poorest could be achieved by further increasing public funding on a large scale. Alternatively, ways could be found to target the available subsidies towards the poorest Ugandans, since the wealthy are currently also benefiting to a large extent.

The additional funds could be used in particular to reduce the distance rural people must travel to the nearest government health facility, effectively increasing their access. They could also be used to ensure that costs of health access to the poorest are indeed minimised, by eliminating informal payments and other transaction costs currently endemic in the system.

Another solution, if this funding is not available, is to recognise the role played by the private sector at various levels. This may involve strengthening rural providers, and developing constructive relations with traditional providers. It may also involve strengthening the emerging health insurance industry, helping it to reduce insurance costs to the minimum, for example by achieving economies of scale.

Policy Makers, if additional funds are not available in the way described above, could achieve greater outreach by giving priority to strengthening the private sector in various ways, for example by:

- promoting self-regulation and information flows about health-care providers of all kinds
- developing qualifications more closely attuned to current training needs of those running private health care facilities, especially in the rural areas
- supporting the emerging health insurance industry in reaching down to the poorer levels of society

Donors can support policy makers in these tasks, and in addition:

- address information asymmetries in health care through research, and information campaigns aimed at health care consumers

- research in particular the current and potential roles of traditional healers in Uganda, to identify actual current usage by the poorest, synergies between them and the mainstream medical system, etc
- support industry-wide bodies representing private health-care providers, for advocacy, information and perhaps supervisory functions

The **private sector** could enhance the environment in which it operates, by building associations of health care providers, to lobby for the industry. In the longer term, a supervisory function could also be envisaged for these associations.

Civil Society, in the form of the Uganda National Health Consumers' / Users' Organisation, could expand on its articulation of the views of health care consumers, so that the services provided by the private and public sectors improve in quality. This may be associated with the consumer education campaigns proposed above.

7 PUBLIC TRANSPORT

Public transport is included in this Paper because it is an example of a liberalised service market where the private sector not only provides the service, but also manages and regulates the market through the Uganda Taxi Operators' and Drivers' Association (UTODA). This Chapter focuses on the self-regulatory aspect; time has not permitted for a closer study of public transport markets in rural areas, even though this is clearly an important topic.

A. Brief history

Historically, the government was the main provider of public transport services through two state-owned enterprises (Uganda Transport Company and Uganda People's Transport Company), which operated fleets of buses. Due to the economic decline in the 1980s, the performance of the publicly owned enterprises deteriorated, and public transport became a nightmare; the number of buses available could not meet the demand.

Consequently, there were long queues, and sometimes people waiting overnight at the bus park, or bribing the operators to get a seat. The buses were usually overcrowded and dirty, and the operators rude. In addition, the buses were poorly maintained and often broke down along the way. This situation, coupled with poor infrastructure, led to long travel times. For example, a journey that now takes 5 hours used to take two days.

Alongside government provision, there were a few privately-owned taxis providing both long distance and town services. However, the service provision was still not adequate to meet the demand for public transportation at that time. For example, in Kampala it was a common sight to see people fighting for places in taxis, especially during morning and evening rush hours. One would wait for hours in the taxi park or at the stage before the next vehicle would turn up. It was common for people to walk to and from work to avoid long waiting hours or the high transport charges of private taxis. There were no "boda bodas" (motorcycles for private hire) at the time.

Since the early 1990's the government has put in place a programme of sector reform based on the principles of liberalisation, deregulation, and privatisation⁸¹. Provision of public transport became exclusively the domain of the private sector. As a result, private sector investment in public transport has steadily increased, leading to competition and improved access particularly in the Greater Kampala Metropolitan area.

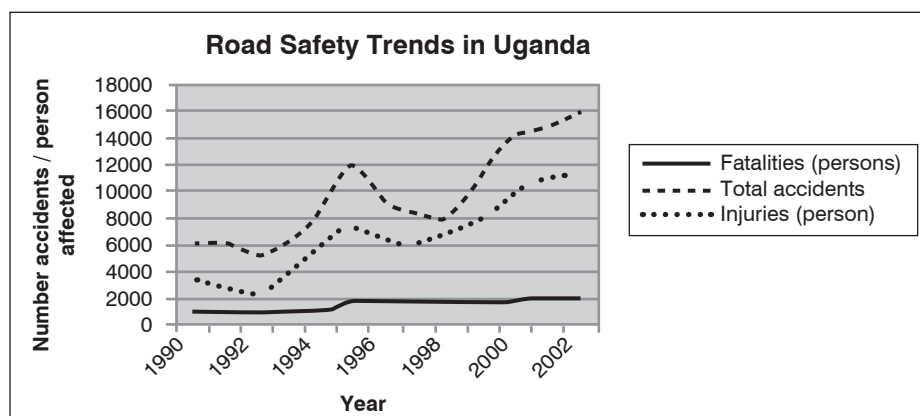
The sector has grown from the situation of scarcity to a point where public transport in urban areas is available, accessible and convenient. With liberalisation, other private sector bus operators from East Africa have entered the Uganda market, increasing mobility within the region. Experience in the "matatu" (minibus for public hire) sector has shown that where realistic profit potential exists, the private sector is willing to mobilise capital and to invest in passenger transport.

Standards and safety regulation are the responsibility of Ministry of Works, Housing and Communication through its agency, National Transport Licensing Board. This agency is supposed to undertake vehicle inspection and licensing of all Public Service Vehicles (PSV) as an entry-level regulation, and also enforce regulations relating to vehicle condition. Anecdotal evidence shows that some Public Service Vehicles are in poor mechanical condition, making it doubtful that enforcement is effective.

⁸¹Transport Sector Policy and Strategy Paper, February 2002

Another safety aspect is ensuring that driver testing is conducted at the appropriate standards, but this also seems to be inadequate. The police traffic department, which is supposed to be in control of traffic and driver behaviour, is also not effective⁸². All these compromise safety standards. The government has tried to address some of these concerns by improving road signage and marking, speed control measures, and introducing plastic drivers' licenses to minimise fraud, but a lot remains to be done.

Perhaps as a consequence, road traffic safety is a serious and growing problem in Uganda, as indicated in the graph below. Even after a concerted effort to improve road safety through a public education campaign and strengthened enforcement in the late 1990s, the number of accidents is still increasing.



Source: Draft National Transport Master Plan

Government has been investing in construction and rehabilitation of some district roads, and there seems to be indication that they contribute to poverty reduction. A recent study of the impact of district road construction on poverty⁸³ revealed a shift from dependence on walking as a mode of transport prior to road rehabilitation, to increased usage of motorised modes of transport in addition to bicycles. There was significant increase in number of people using motorcycles (387%), cars (144%), pick ups (149%) and minibuses (44%). The study also revealed a positive correlation between improvement in road infrastructure and employment creation, access to social services, increased production and productivity and overall growth in household incomes.

B. Unique features of this service sector

The transport sector plays a critical role in poverty reduction by enhancing access to markets, social and public services, job opportunities and promotion of tourism etc. Therefore, it plays a facilitative role to other sectors to achieve their full potential. In addition, it directly provides employment and investment opportunities. As a result, it has been considered a top policy priority by government⁸⁴.

This is also an interesting service sector because no one is calling for a return to public provision of transport services. Liberalisation has brought improvements. Private sector investment in transport services has been attracted to those areas and routes where the most profits are to be made, although this has led to limited outreach into rural areas. Without continuing and major public investment in improved rural road networks, this is likely to remain the case.

⁸²The President of Ukraine recently abolished the state traffic police for this reason, according to The Independent, 20 July 2005.

⁸³Social-Economic Impact of Poverty Action Funded Road, FY 2000-2003 on Ten Selected Districts by Merit Management Consulting and Training, May 2004.

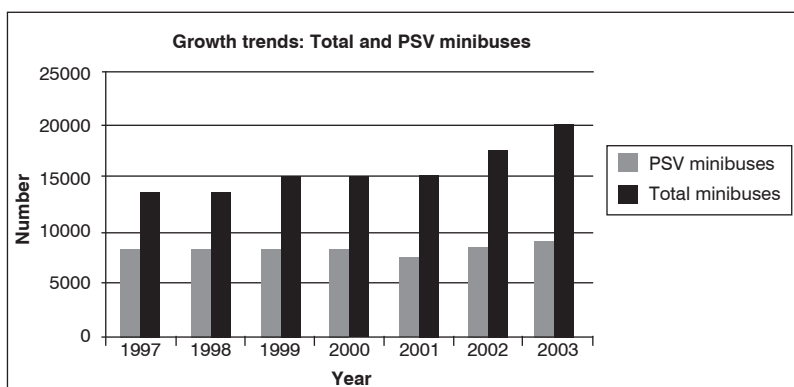
⁸⁴The World's Banker, by Sebastian Mallaby Yale University Press, 2005, p 223

C. Current service provision by commercial providers

Characteristics of Public Transport Vehicles are shown in the table below.

	Minibuses or “matatus”	Buses	“Boda-bodas” (motorcycles for hire)
Capacity	Mostly 14 passengers	Av. 51 passengers	Individual transport
Distance	Medium / long distance	Medium / long distance, domestic / regional	Short distance
Urban / Rural	Urban / rural but mainly urban	Urban / rural but mainly urban	Urban and rural
Itinerary	No fixed stopping places or scheduled timetables. Journey has specific route with intermediate stages	Well-established boarding points, routes and timetables	No established routes

There are different categories of Public Service Vehicles⁸⁵ but the most common providers of public transport are minibuses and buses. The graph shows the growth trend of the number of minibuses and the proportion that are PSV licensed from 1997 to 2003. Boda bodas, or motorcycles for public hire, have recently become popular but they are not licensed as PSVs, and their numbers are not known; in 2004 the total number of licensed motor vehicles on the road was 89,000.



Source: Ministry of Works Transport and Communication National Transport Database

A Kampala City Council 2003 census identified 6,851 minibuses operating in the Greater Kampala Metropolitan area (defined as within a 30-kilometre radius of Kampala city centre). This accounts for 74% of all the PSV-licensed minibuses (or “matatus”) in that year, indicating that public transport is concentrated within the Greater Kampala Metropolitan area, leaving other town less served, and majority of rural areas not served.

Recent research⁸⁶ has shown that the growth in the matatu service market in Kampala has had a positive impact on poverty reduction. The “matatu” market impacts on income in two different ways. First there are job opportunities created directly in the operation of the matatu. Second, there are job opportunities created indirectly because the “matatu” service renders opportunities, which would not otherwise be there.

80% of the drivers and 67% of the conductors interviewed had secondary education and no vocational training. Starting a career in this sector is relatively easy through informal connections and the only skill certification required (for the drivers) is the driver’s license. This is very easy to get because one can learn to drive on the job without paying for the driving lessons, and the cost of getting the license is cheap. It may not even be necessary to actually take the driving test in order to get a license.

⁸⁵Public Services Vehicle License categories include Omnibuses, Buses, PMOs, Rentals, Town Taxis, Country Taxis, Tour Operators, and OTVs.

⁸⁶Poverty in the Perspective of Mobility Services: A case study of the Public Transport (minibus/“matatu”) market of Kampala, Oliver Schimdt and Regina Kamuhanda, June 2005

Around 60% of the drivers and 70% of the conductors get their job through the network of family and friends. Nearly half of the conductors interviewed had no job prior to becoming conductors, and 13% had been employed as casual workers. The absorption of urban poor by this segment of the “matatu” service market is highly significant. In terms of income, for an average of 12 hours a day, the driver brings home Ushs 20,000 (\$11), and the conductor Ushs 10,000 (\$5.40).

A career within the “matatu business” provides choices and promises inclusion into a relatively strong social network, which is likely to be a source of future employment. For example, the position of a “matatu” conductor is a promising one, understood to be the entry point to a career which hopefully will lead to a position driving a minibus, and perhaps ultimately to owning one too. Approximately 40% of the drivers are owners⁸⁷.

Furthermore, the borderline between all kinds of transport-related job opportunities is thin around the “matatu”. Thus, drivers and conductors are likely to adapt to a good deal of vehicle repair and maintenance. These in turn may create further job opportunities, such as becoming a garage owner or selling vehicle spare parts.

In the current situation, the “matatu” service is unchallenged in price and availability, and thus provides opportunities for all kinds of people - from the teacher living on one side of town and working on the other, connecting the two by “matatu”, to the self-employed trader who transports goods from a cheap supplier to markets with higher prices.

In addition to service provision, the private sector is also in charge of regulation of passenger operations through the associations of the various providers. These associations have the mandate to set and enforce the rules for orderly operations:

- Uganda Taxi Operators and Drivers Association (UTODA)
- Uganda Bus Drivers Association
- Uganda Boda Boda Association

D. Illustrative case study: Self regulation by UTODA

The Uganda Taxi Operators and Drivers Association (UTODA) is an umbrella organisation that brings together taxi owners and drivers. Initially it was set up in 1986 (after the war) to act as a forum for members to express their views and grievances. During that time, insecurity on the roads was rampant. With time, the association has grown strong and evolved into an organisation that sets and enforces rules in the taxi sector.

The power to set and enforce rules is derived from the quasi-monopoly position the association enjoys due to the contract with Kampala City Council to manage the two main minibus terminals (taxi parks). The franchise contract is fixed-term, and renewal is theoretically subject to a public competitive tendering process. Realistically however, few viable competitors with proven resources and experience exist to actively and practically compete with UTODA, which gives it a dominant position in the market⁸⁸.

In trying to organise the operations of the taxi system, upon registration, UTODA assigns a taxi a specific route. All taxis operating a route have a designated parking space within the taxi park, and there are traffic guides to direct passengers. This route allocation is supposed to be enforced at all times except during rush hours. This is to ensure that during off-peak hours all vehicles get equal opportunity to load passengers in an orderly manner.

⁸⁷Data from UTODA

⁸⁸The Draft Greater Kampala Transport Master Plan

Apart from the central taxi park, there is a network of 125 stages along the various routes where taxis pick and drop passengers, and UTODA personnel man these stages. UTODA has a pool of 650 employees, including supervisors, law enforcement personnel, traffic wardens, and cashiers, to run its operation. UTODA also sets the fares.

All minibus operators must belong to UTODA, and pay the monthly membership fee of Ushs 20,000. UTODA has its staff at every bus stop, and therefore it is practically impossible for minibus operators to evade payment of this fee. In addition, they must pay a daily fee of Ushs 4,500 to enter the taxi park, collected at the entrance of the park. In addition, Kampala City Council pays UTODA a fee to manage the taxi parks, meaning that the association has a stable income. Indeed, the Transport Licensing Board, which is in charge of enforcing the Traffic and Road Safety Act is resource-constrained and sometimes relies on UTODA to finance some of the road safety sensitisation activities.

Other activities performed by UTODA to ensure an orderly operation include training of drivers and conductors in road safety and customer care, dispute resolution, managing traffic flows during rush-hour congestion in collaboration with the traffic police, and running a first-aid post to deal with accidents.

UTODA is careful to maintain a good relationship with all the relevant government bodies, such as:

- the police traffic department, responsible for enforcing the traffic law
- the Transport Licensing Board which inspects and licenses PSV vehicles
- the Ministry of Local Government
- Kampala City Council, which owns the taxi parks
- the Ministry of Works, Transport and Communication, which is in charge of policy making, road maintenance and planning

UTODA has managed to establish an orderly operation of the taxi industry in an environment of high unemployment and a workforce dominated by school dropouts and including army veterans and retrenched civil servants. It is thus setting a good example, in terms of enforcing its rules and regulation in managing the operations.

However, whereas UTODA seems to be performing relatively well in terms of enforcing regulation to manage the operations from the perspective of policy makers, it seems to be losing its character as a membership organisation, and drifting from its original mandate of protecting the interest of its members. Drivers, owners and conductors seemed to wonder how trustworthy UTODA was, despite the fact that this is “their” organisation. This may relate to the possible conflict of interest when a membership organisation, initially set up to protect interest of its members and nurture their growth, takes on regulatory functions too.

Recognition of UTODA’s role as a rule or standard-setting body in the “matatu” service market by passengers should be an indicator of how far mobility demand is being met. 59% of passengers were aware of the regulatory framework for consumer protection, but 75% said they have never benefited from it. In addition, 50% of the passengers interviewed consider UTODA staff not to be trustworthy. So again, it could be argued that UTODA is not yet wholly fulfilling its regulatory function.

E. Opportunities and threats

There is great potential for trainers and advisors to assist vehicle operators in how to improve their business management operations; this should be relatively easy to start, since the owners are already organised into associations. Another opportunity is vehicle leasing, given that a

financial institution has a readily identifiable, income-earning asset to use as security, which can be, reclaimed in the event of late payment or default.

However, the leasing market in Uganda has been slow to develop, in part because of legal and regulatory issues. Other financial service providers, such as commercial banks and MFIs, could also look at this market for savings, credit, money transfer and investment. The reason why lenders usually shun it is because it is considered risky since management of “matatu” enterprises is usually informal and often without proper records. If the management of “matatu” enterprises could be professionalized, a lot of wealth could be unlocked.

The limited capacity of the regulating body is also a threat to safe transport services; for example, whereas it is a requirement that all vehicles be inspected before being granted a PSV license, many seem to be obtaining licenses without rigorous inspection.

There are no mechanisms for public transport user protection. The existing business membership associations claim that user protection is part of their mandate; in practice, though, this is doubtful since they are clearly set up to protect the interests of providers.

F. Conclusions

The public transport system in Uganda is an example of a liberalised market, where the private sector is performing the roles of service provision and operational regulation. The market is contributing opportunities, income, and inclusion to the urban poor. It seems unlikely that government and donor agencies can improve on this achievement by intervening in service delivery.

The role of government is well defined, but unfortunately often not implemented very rigorously. The model of self-regulation by UTODA has largely worked in the perspective of the policy makers, because of its quasi-monopolistic position; however, it has been unsuccessful in getting the buy-in from other industry stakeholders.

G. Recommendations

Policy makers can play their most important role in continuing to focus on regulation, planning and infrastructure development.

Improving the road infrastructure in rural areas will stimulate local economic development through enhanced access to markets, and consequently attract private sector investment in public transport provision. Opportunities for pro-poor economic development could, however, be taken more into account when rural roads are built or up-graded. Priority setting for the GoU road building programme, for example, could look at private sector development issues.

The **private sector** can achieve greater scale by being increasingly professional. Proprietors could look for training in management skills, for example. UTODA as an association could advocate for the rights of its members, including for example the drivers. The credibility of UTODA in enforcing regulation could be enhanced through a stronger governance system, and greater transparency. Splitting the membership function and the regulatory function into two separate organisations would also be helpful, so that stakeholders are not confused.

Donors are likely to focus their available efforts on the construction of rural roads, since this will lead to pro-poor outcomes. However, lives could also be saved and enhanced through efforts to improve road safety.

8 AGRICULTURAL EXTENSION⁸⁹

Agricultural extension services in Uganda have traditionally been provided free of charge by the government, and expectations of continued public funding are therefore high; at present, though, there is no obvious business model for the sustainable provision of a similar type of service. Meanwhile, some services are provided sustainably by traders and through the mass media, but these are not yet integrated with more traditional formats for service delivery.

A. Brief history

Traditionally, delivery of agricultural extension services has been the responsibility of the Ministry of Agriculture, Animal Industry and Fisheries. Alongside service provision by government, there have always been limited services provided by NGOs and faith-based organisations. NGOs and faith-based organisations usually target the vulnerable groups like poor communities or regions. There are NGOs (local and international) in Uganda, which up to today target only such segments of society.

The public extension system has not only provided advisory services, but government also took charge of disease and pest control, through buying materials and paying for labour that was hired to apply chemicals for disease and pest control. These services included:

- spraying coffee at no cost⁹⁰
- vaccinating cows against major diseases like Anthrax and Foot and Mouth Disease free of cost
- provision of communal cattle dips and dipping cattle to control ticks, free of charge
- treating and distributing cotton seeds free of charge

These measures illustrate the point that the prevention of major disease outbreaks among livestock and crops is a classic public good, with positive externalities. Benefits to society exceed the benefits to the individual. This Chapter, however, considers more the sorts of extension service that will enable farmers to diversify into new crops and to increase their productivity. It therefore tends towards the private good end of the spectrum.

Tobacco is one crop whose extension service delivery has always been in the private sector under a multinational, British American Tobacco Uganda (BATU). Since BATU effectively had a monopoly on purchasing tobacco leaves, they had an incentive to invest in extension services to the farmers growing for them. In other crops, however, government parastatals dominated agriculture until the early 1990s, when liberalisation of the whole economy was initiated. Government started encouraging production of non-traditional export (NTE) crops, for example attracting investments in the floriculture sub-sector. Because of the special service demands in floriculture, the investors had to employ their own technicians as service providers, setting an additional example of provision of extension services by the private sector.

Alongside the privatisation policy, the GoU designed the National Agricultural Advisory Services (NAADS) programme as a constituent of the Plan for the Modernisation of Agriculture. Implementation of NAADS started in 2001. The programme aims at commercialising Uganda's agricultural sector through the use of private service providers. NAADS has been a major shift in approach to the provision of services in the agricultural sector. For the first time, Government is hiring private service providers. Farmers select enterprises (crops) in which agricultural extension services are needed, and they also participate in selecting the service providers.

⁸⁹This case study is based on materials prepared by Paschal Nyabuntu, a freelance consultant in agribusiness

⁹⁰The service was not actually free, since coffee was heavily taxed by government. Government used part of this tax to meet spraying expenses

Presently NAADS is the most prominent agent for service delivery in the agricultural sector, with a budget for the first 7-year phase of \$108 million, although it has not yet received all of these resources. By mid-2005, NAADS was covering 280 sub-counties in 29 districts, out of the total of 900 sub-counties and 56 districts. This means that 69% of sub-counties remain under the old extension system of public civil service. The programme is being rolled into more districts and sub counties every financial year; by mid-2006, NAADS plans to be covering 344 sub-counties in 37 districts.

The implementers of NAADS are local Governments with the Chief Administrative Officer (CAO) in the district as the accounting officer. NAADS secretariat's role is technical guidance, programme coordination, supervision, and backstopping district staff. Actual implementation takes place in sub counties where farmers choose three crops that they consider to be the most profitable and marketable.

Two other factors considered in crop selection are financial outlay and risks, but profitability and marketability are given higher weights in making the decision. While a step in the direction of marketability, the process still does not involve people who understand markets and current demand. Marketing therefore remains a problem and continues to constrain agricultural commercialisation. Marketability is based on farmers' perceived markets and not on actual identified markets.

After choosing the three crops, farmers identify what they consider the key constraints. The sub-county technical committee then works through the chosen crops, and turns the identified constraints into ToRs for service providers. The sub-county then advertises for service providers who bid based on the ToR, and finally a service provider (SP) is selected through an evaluation process.

The NAADS programme was designed on the premise that "Many past efforts in agricultural development have had limited success and long term effectiveness because of lack of ownership by the key stakeholders-farmers"⁹¹ however, service provision remains an imitation of the old system:

- There is no link in practice with market demand. Farmers are supposed to choose crops for which there is a viable market, but they lack the information and contacts to make informed decisions about this
- Not all the NAADS coordinators at district and sub-county levels have the competencies that they need to manage the whole process
- Service providers are contracted for a very short period. In most cases, the contract is for less than the growing season of annual crops. Service providers do not get time within the short contractual period to visit each farmer's field. Moreover, the ToR for service provision does not require service providers to visit farmers' fields

In terms of funding, farmers contribute 2%, district local government 5%, and sub-counties 5% of the costs for service provision. The rest is contributed by donors (80%) and central government (8%). The insignificant contribution by farmers is because farmers are poor and remain poor even after producing and harvesting their crops.

However, this low level of contribution by the ultimate service users brings with it a number of problems, not least that service fees are likely to be higher than farmers will be able to afford. It also means that, even now, they are not really the customers, but still rather the beneficiaries. Experience suggests that contributions of over 50% of service charges from public funds mainly distorts the market by driving up prices, rather than stimulating demand in the longer term. NAADS does intend to reduce the level of subsidy over time, so that in 25 years the farmers are funding more and control the service market, but it is nonetheless starting at a very high level.

⁹¹NAADS: Master Document of the NAADS Task Force and Joint Donor Groups (2000, p.13)

The Table below, prepared for this Chapter, is a schematic representation showing social classes of Ugandan farmers, their characteristics, and their relationships with NAADS.

Social class of Farmers	Characteristics	Sectors the class operates in	Relationship with NAADS- the dominant player
Commercial estate farmers	<ul style="list-style-type: none"> • Very large farms • Highly commercialised • Uses latest applicable technologies • Employ private services providers • Involvement of foreign investors • Very highly specialised • Keep farm records and prepare farm plans and budget 	<ul style="list-style-type: none"> • Traditionally in sugar can and tea • Floriculture • Expanding ti coffee • Cattle enterprises 	Not interested in NAADS services (NAADS intends to collaborate with them in the future, as nucleus farms to link with small holders)
Commercial farmers	<ul style="list-style-type: none"> • Medium sized farms • Mostly local traders, retired civil servants who invest part of their savings • Specialised in a few enterprises • Generally use modern technology • Quite commercialised • Keep farm records and may prepare farm plans 	<ul style="list-style-type: none"> • Dairy • Bananas • Coffee 	Generally not interested in NAADS can pay for services whenever there is need (NAADS also intends to collaborate with them as nucleus farms to link with small holders)
Progressive farmers (Middle class)	<ul style="list-style-type: none"> • Always looking for up-grading chances • Willing to copy some ideas from commercial farmers • Specialise in a few enterprises • Moderately commercialised • Play a role of opinion leaders • Talk more in meetings compared to the two classes below • May keep records, but are deficient 	Not specific, but tries a combination they believe will make money	<ul style="list-style-type: none"> • Dominate leadership positions in farmer groups and farmer forums • Beneficiaries from NAADS but could do without it • Dominate as hoss of NAADS demonstrates
Active poor farmers	<ul style="list-style-type: none"> • Generally want to get involved in many enterprises as insurance against crop failure • Willing to listen to any advisors hoping that one of the advisor will deliver them from their poverty • No idea on how markets work 	All enterprises available in the locality	<ul style="list-style-type: none"> • Major beneficiaries of NAADS • Attend meetings but do not participate as much as progressive farmers
Inactive poor farmers	<ul style="list-style-type: none"> • The very poor of society • Poor or no assets or base • Fearful of mixing with other farmers • Some work and are paid in kind • Some have no land • Very submissive and do not believe they can get out of poverty 	Limited to one or two enterprise due to lack of resources. Enterprises generally very poorly managed	Generally do not bother about NAADS programmes. Think such programmes are not made for them

Many other initiatives are working to reach farmers with agricultural extension services on a sustainable basis. The BSMD project, for example, has developed model Sale Agreements that have been published and are available from bookshops. Traders and farmers who want to avoid later misunderstandings have welcomed these agreements.

Agricultural Financing

The delivery of agricultural extension services on a commercial basis largely depends on a successful transition from subsistence to commercial agriculture. However, commercial agriculture in Uganda is meanwhile greatly hampered by limited access to agricultural financing, both for long-term and working loans. The underlying cause of this situation is that the mechanisms are not yet in place to handle the costs and risks involved.

The formal financial system is currently meeting some of the demand for financial services from agricultural production and trading sector, but access is generally limited to larger clients with established track records with banks and substantial collateral to offer as security. The banks mostly finance short-term working capital; meanwhile, the less traditional financial products such as term loans and price-buffering mechanisms (which are much more in demand by smallholder farmers), are almost impossible to obtain. Only about 10% of the total volume of loans and advances made by commercial banks currently go to the agricultural sector.

Micro-finance delivery systems are not suited to farming enterprises, since agriculture is characterised by longer seasonal cycles and irregular cash flows. MFIs provide loans over terms of less than 6 months, with relatively high interest rates (3-4% pm); repayments are required frequently. In short, these loans are suited to trading enterprises with high turnovers rather than farmers.

The member-owned and managed organisations such as Savings and Credit Cooperative Organisations (SACCOs) may be the only type that can economically serve sparsely populated remote areas where it is too costly for banks to locate branches. Unfortunately, however, these may be weak, poorly managed, and face governance problems because of the lack of a strong regulatory and supervisory framework.

Arrangements exist where nucleus estates or traders provide in-kind loans and product-marketing support to out-growers; this, however, is not their core business, and MFIs could explore links with them to make financing available.

Greater involvement of financial institutions with the agricultural sector is hampered by:

- a lack of trained staff in the financial institutions and therefore a lack of understanding of the market, particularly of the agro-enterprise business model, the design of suitable financial products, delivery technologies and ways to mitigate the risks involved;
- the low levels of profitability inherent in farming, which is further exacerbated by poor infrastructure (and therefore market access), and by the low skill levels currently found in agriculture.

Increasing access to agricultural financing remains a critical concern for all stakeholders (policy makers, development organisations, financial institutions, and all actors in the market chains).

B. Unique features of this service sector

Agriculture remains the main sector for Uganda's economic development. It employs 69% of the population. An estimated 86% of Uganda's population lives in rural areas. 77% of the active labour

force in Uganda's rural areas is employed in agriculture⁹². The sector is an important stimulant in rural areas for non-farm activities like trade, education, improved housing, and energy sources and is a major source for most of Uganda's export earnings accounting for 50% (excludes fish but includes livestock and livestock products) of export earnings in 2003.⁹³

The sector remains the most promising in terms of export diversification in the foreseeable future; agriculture already contributed 39% of GDP in 2003/4⁹⁴. Despite these attributes of the sector to the economy, it is still rudimentary in terms of equipment and practices used in the production processes.

C. Current service provision by commercial providers

Traders are providing 'embedded' agricultural extension services to the farmers supplying them; the examples of Mairye, Amfri Farms and Gumutindo, quoted below, were all established without government funding, although all of them received varying donor funding to meet initial establishment costs. They appear to be effective in linking farmers to markets, through:

- provision by the traders of inputs like seeds, chemicals and advisory services, in partial (advance) payment for the produce from farmers when it is ready (e.g. the Mairye Estates arrangement with smallholder farmers)
- technology licensing arrangements where the marketer provides critical services to farmers and fruit processors, e.g. a quality management system, training and extension services, organic certification. This has been developed with Amfri Farms and is currently being marketed
- In the coffee sector, buyers of speciality coffee are also providing advisory services to farmers. The services are focused to the market requirements, and this is the driving force of service provision. The Gumutindo Cooperative Enterprise in Mbale is an example
- Bee Natural Products in Arua district is working with farmers to produce for the local as well as a potential export market. Bee Natural supplies inputs (bee hives, harvesting gear) to farmers on credit and also provides embedded services and buys back the honey from farmers. In cooperation with NAADS, Bee Natural is able to identify service providers who are hired and paid for by NAADS in Arua district. This has reduced operational costs of Bee Natural and at the same time has provided a market opening for apiculture farmers in Arua

D. Illustrative Case Studies: Mairye Estates, Commercialisation of rice

The following examples are essentially rather small-scale, and are outlined here to point to possible future directions for public policy, rather than as alternatives in the immediate future to operations on the scale of NAADS.

Mairye Estates

Mairye Estates is a commercial farm producing both flowers and vegetables for the export market; mainly to the European Union. Flowers are purely produced by Mairye on an irrigated green house farm while vegetables are partly produced by Mairye and partly by smallholder farmers as out-growers. The out-growers were identified and organised by Mairye to supplement its production and exports of chilli. In this way a long term relationship has been established between the smallholder farmers and Mairye.

⁹²PEAP 2004/5-2007/8

⁹³Statistical Abstract 2004

⁹⁴Statistical Abstract 2004

To enhance the relationship and efficiency of operations Mairye established a subsidiary, Farm Fresh to be responsible for the operations of out-growers. Mairye arranges and pays for all the costs related to certification requirements of the European Union. The major constraint to the relationship is unreliable production by smallholder out-grower farmers during the dry seasons since they do not have irrigation systems due to the high costs involved. The relationship of the three partners, Mairye, FarmFresh and smallholder out-grower farmers, is shown in the Table below.

Partner	Roles / Responsibilities
Smallholder out-grower farmers	<ul style="list-style-type: none"> • Land renting • Chilli growing and harvesting
Farm Fresh	<ul style="list-style-type: none"> • Procures inputs and supplies them to farmers on credit • Land ploughing for farmers at subsidized costs/credit • Raises hybrid seedlings for sale to farmers • Provision of technical assistance (advisory services) • Transport of produce from farmers' fields to Mairye's pack house • Advise and supervises chemical applications (types and dilutions) • Quality management though growing to harvesting
Mairye Estates	<ul style="list-style-type: none"> • Pays for all the certification costs • Provides production plans to farmers through Farm Fresh • Grows its own vegetables including chilli • Buys produce from farmers through Farm Fresh • Provides cold chain / storage from Mairye to Entebbe • Transports produce from Mairye to Entebbe Airport • Looks for and secures markets • Exports the produce

The benefits of this arrangement are:

- Farmers are able to access expensive equipment (tractor and cold storage) which they would not have been able to access individually
- Farmers are able to access a market, which they would not have been able to access individually and thus get better prices for their produce
- Farmers are able to access high quality inputs (hybrid seeds/seedlings, chemicals)
- They access relevant market linked advisory services
- Farmers are able to have market oriented production plans guided by the marketer (Mairye)
- Farmers produce and production practices are certified at the cost of the exporter who also arranges for the processes of such certification (the producer ultimately contributing to the cost of this service through the ultimate sale price)
- The arrangement enhances the ability to meet the requirements of the EU for tracking the supply chain
- Farmers are able to participate in a quality-managed system that would have been difficult for individual smallholder farmers
- Mairye is able to increase its export volumes
- Transport costs are reduced to less than what they would have been if Mairye were to gather produce from scattered and uncoordinated smallholder farmers
- Mairye is able to control quality of smallholder producers

Commercialisation of the rice sector

Uganda has been importing rice for some years, since domestic production cannot keep pace with demand. One group of development organisations has collaborated with a private company to develop a seed that could cope with upland, rain-fed conditions. Their objective is to promote

economic growth through production of large quantities of rice to a high quality, using imported chemicals. Yields are good (up to 4 tonnes per acre) and the crop matures in 90-120 days.

Another group of development agencies has also focused on rice, but with a livelihoods perspective. They consider that smallholders should grow the rice without any chemicals, not aiming for commercial quantities or quality. This is envisaged as improving food security, and helping to eradicate poverty.

Both groups have provided a range of supports to farmers to enable them to adopt the crop. These efforts have increased rice production substantially, and some is now exported to neighbouring countries; “in the last season (September-December 2004), the 4,000 farmers who grew upland rice harvested a bumper crop of 8,000 metric tons. This generated Ushs 3.2 billion (\$1.7m) for the farmers. Uganda needs 120,000 metric tonnes of rice annually and yet she produces only 55,000 metric tonnes. Uganda spends about \$90m per year on importing rice”⁹⁵.

One company has set up a rice processing plant particularly to purchase high-quality rice. This company is now looking for additional rice to purchase, and Uganda is still importing rice, so there is clearly room for growth. One qualification to this success story, however, is that the two approaches (with their associated inputs and skills) may be in danger of competing for some of the same farmers; the challenge is to enable farmers to choose the approach that is right for them.

E. Opportunities and threats

Opportunities to develop private sector provision of agricultural extension services:

- More farmers getting interested in earning money from agriculture especially with PMA campaigns
- Lack of market linkages in other service delivery systems e.g. by government and NGOs
- Provision of market oriented advisory services, in particular through collaborations with processors, exporters and other buyers
- Potential for including more farmers into the out-grower scheme

Threats to the development of agricultural extension on a commercial basis:

- Distortions in the service markets created by government and donors, except in cases of public good, such as pest and disease control
- Lack of appropriate credit for smallholder farmers to enable them expand and maintain stable production
- Unreliable production by smallholder farmers during dry seasons
- High initial cost of mobilising, organising and training smallholder farmers into feasible production units
- Inability to enforce contracts
- Risks that come with increasing specialisation

F. Conclusions

Agricultural extension has traditionally been provided free of charge, originally because pest and disease control were considered a public good. More recently, government has become interested in encouraging farmers to move from subsistence to cash crops, and to diversify

⁹⁵The New Vision, Wednesday 20 July 2005

into new markets. The government's agricultural extension 'flagship', NAADS, has signalled an important shift towards provision of extension services by private providers on a commercial basis.

Problems remain, however, since NAADS still lacks significant links to actual markets, remaining focused on the technical rather than commercial aspects of diversification. In addition, it requires only a very small cost contribution from farmers, meaning that sustainability will only be achieved far into the future (if at all).

Meanwhile, there are cases of provision of extension services to farmers, for example where traders in return for an increased margin on the produce, absorb the cost of these services when it is finally sold. Advisory and information services may also be provided sustainably by commercial radio stations, but this possibility has already been discussed in the earlier Chapter on commercial radio.

G. Recommendations

Enhancing reach of the service towards the poorest will require a focus on subsistence agriculture, and this can probably only be served with information through the mass media. There may be other formats in which agricultural extension services can be delivered to those engaged in some form of cash crop; however, no reliable statistics seem to be available on the relative proportions of the two types of farmer.

There is a clear gender dimension; estimates show that women contribute approximately 80% of the labour force for food production, and 90% for processing and preparation⁹⁶. Thus, women carry out most subsistence farming. Translating this into information about access by the poorest Ugandans to agricultural extension services is not, however, possible at this stage.

Policy makers can maximise the pro-poor impact of the resources available through the control of pests and diseases, since these have a clear public good quality. In addition, extension and advisory services may be focused to the poorest groups, including for example those with little or no land; crops and other opportunities that can be viable on a micro-basis (e.g. mushrooms, fish-farming) can be developed as 'packages', and information provided through the mass media.

There is likely to be great demand for this information, and associated support, among the rural population. Again, impact will be greatest when these initiatives are linked to existing market demand, or at least to markets with high potential. This can probably only be achieved by linking to traders, who currently constitute a rather amorphous and unknown group to policy makers.

Donors, in support of policy goals, can accelerate the development of service markets, for example through demonstration of new business models and value chains. However, such work does require a range of skills, which donors can cultivate and develop.

Donors could also contribute to the achievement of greater outreach and scale by supporting research into the current and potential roles of traders in Uganda. Similarly, there seems to be relatively little information available on current cropping practices, although this may be even more difficult to research, given its constantly changing nature.

Donors can also enhance the availability of agricultural finance on a sustainable basis. Creative ways to do this could be explored, including for example:

- exploring expansion of warehouse receipt systems

⁹⁶Common Country Assessment of Uganda, United Nations, 2004

- training staff of financial institutions about the market, necessary business models, product development, delivery technologies and ways to mitigate risks
- encouraging market-led crop diversification, to improve the viability of smallholder farming, and therefore the viability of financial products for that target group
- assisting in the formation of farmers' groups, working for example through traders and others to achieve sustainability

The **private sector**, particularly traders, can support smallholder farmers to form groups, to 'bulk up' the services available. Traders can also establish long-term relationships with farmers, so that they can invest in production, and recoup their investment, with confidence. Commercial radio stations can reach farmers with information, if it is provided to their journalists in a form that is sufficiently interesting and attractive to listeners.

9 VOCATIONAL TRAINING

Training has been subsidised for many years in Uganda, and the expectation is still that it should be provided free-of-charge. Nonetheless, there are some training institutes that are aiming to operate on a for-profit basis, and some initiatives are working to support them, and to reform the sector as a whole.

A. Brief history

Originally, several Ministries operated training institutes and facilities, somewhat duplicating the various offers. However, all of them were under-resourced; while donors occasionally gave equipment and other capital inputs, adequate funding for the running costs was always a challenge. As a consequence, attracting and retaining qualified staff, and purchase of raw materials, was always difficult.

In the course of the public service reform in 1998, the Ministry of Education and Sports (MoES) became the overall coordinator and supervisor of almost all Technical and Vocational Education and Training (TVET) activities in Uganda.⁹⁷ This has proved somewhat effective in training technicians at the tertiary level. However, other target groups, including those aiming for self-employment, remain under-served; the TVET sector remains generally out of touch with the needs of the labour market. Government budgets are still overstretched, and therefore it is logical to consider what the private sector can provide.

A study commissioned by the European Commission⁹⁸ identified 144 public training institutions divided into Business (5), Technical (99) and Vocational (40) institutions. In addition, around 600 private training providers were found to be offering TVET in Uganda, training approximately 40,000 students p.a. The intake of both private and public training providers reflected only 8 % of the relevant age cohort seeking further education. An additional 40,000 people were finding training as apprentices in the private sector.

The study concluded that there was a mismatch between the training being provided, and the training needs of the Ugandan private sector; the draft TVET policy and the Education Sector Strategic Plan (ESSP) 2005–2012 both reinforce this finding. Similarly, the UN reported that, in 2000, only 15% of youth who completed school could enter formal employment, due to the lack of functional skills⁹⁹.

To address this situation, a Permanent Steering Committee (PSC) was established for Business, Technical and Vocational Education and Training (BTJET) in Uganda, including representatives of the government and business; the aim of the Committee is to advise the Permanent Secretary of the MoES on reforms needed to the sector. In addition, the PEVOT programme, coordinated by GTZ, is working to establish a Ugandan Vocational Qualifications Framework (UVQF)¹⁰⁰.

In addition, there are several matching grant programmes administered by the Private Sector Foundation of Uganda (PSFU), which have as one of their objectives the development of a training market. The largest, the Business Uganda Development Scheme, has been through

⁹⁷Policy Document on TVET in Uganda, Kampala, 2003

⁹⁸Skilled Manpower in Uganda: A Study on the Need for Modern Business, Technical and Vocational Education and Training (BTJET), by Sarah Nalumansi and Siegfried Muller-Maige for the European Commission, June 2003

⁹⁹Education and Statistics Abstract, UNICEF Kampala, 2003, cited in UN Common Country Assessment

¹⁰⁰For more detail, see: Roadmap - UVQF Draft Version, UVQF Secretariat, Kampala May 2005, expected to be approved by the ESR in November 2005

several incarnations since it started in 1995, with funding from the World Bank and the European Commission. “To date 1,200 businesses from 35 districts have benefited from over \$3,500,000 paid out as cost share grants. Over Ushs 1 billion shall be disbursed to businesses in this financial year 2005/06”¹⁰¹. The World Bank has now provided a major replenishment of this fund¹⁰².

The 2004 evaluation of the BUDS-SSE scheme concluded that “MSMEs are in most cases not in position to diagnose their real needs which necessitates then that any BDS program must have the capacity to handhold individual firms through most of the procedural processes.” This seems in line with previous matching grant evaluations in other countries, which have tended to conclude that the preferred target group finds the administrative hurdles involved in getting the grants to be very difficult.

Conversely, those who can successfully negotiate the application procedures may have accessed the training or consultancy service anyway. The non-financial elements of such schemes, covering for example information about training courses available and their relative popularity, may be as important from a development perspective as the grants.

Meanwhile, many development organisations have been offering a wide range of training courses for many years, and historically have often paid people to be trained. This has created perverse incentives, where people ultimately were participating in the training only to access the allowances, rather than to gain knowledge.

This practice continues, albeit in a reduced form; from a development organisation’s point of view, the logic is obvious. Less work is involved in making payments that, for the agency, are very small, than if the curriculum and teaching format were made totally demand-led (which might require some major modifications). Nonetheless, this does give rise to some bizarre situations, as illustrated in the box.

Participants at a 3-week course on oil extraction boycotted a closing ceremony on Friday after learning that they would not be paid allowance. Activities to end the course organised by Uganda Manufacturers’ Association and Northern Uganda Manufacturers Association came to a halt when participants locked themselves in a room shouting “No money, no ceremony” ... Attempts by officials to convince them to attend the ceremony were futile ... UMA Training Officer James Okweny said it was not UMA’s policy to dish out allowances “instead participants should pay commitment fees of about Ushs 30,000 but we considered the people here are generally poor.

New Vision, 19 November 1998

B. Unique features of this service sector

One feature of the training market is that those purchasing training services must generally accept a high degree of risk, in various ways:

- that the training content is appropriate, in the sense of being the right subjects to lead to increased income or other benefits in the longer term
- that the training is of sufficiently high quality that they will benefit
- that the training, and any after-training support, will be of sufficient quantity to enable them to benefit

These risks must be balanced against the up-front investment, of which any training fee is only one element; others include the opportunity cost of the time and travel costs. Since poor people are not well placed to take risks, any intervention to develop a training market has to consider ways in which to reduce these risks. Risk-reduction strategies may include:

¹⁰¹www.psfuganda.org/news.php?newsId=189

¹⁰²www.bdsknowledge.org/dyn/bds/bdssearch.details?p phase id=384&p lang=en&p phase type id=2

- providing information about training quality, including for example which training courses are the most popular with other people, or organising 'taster' sessions either face-to-face or on the radio
- branding training courses so that trainees have some idea of the quality (as with ILO's Improve Your Business methodology)
- finding non-fee forms of payment, such as payment on commission or payment through margins on trades (if training is provided by or through traders)
- reducing the cost of trying out the training in the first place, as with the matching grant schemes mentioned above

C. Current service provision by commercial providers

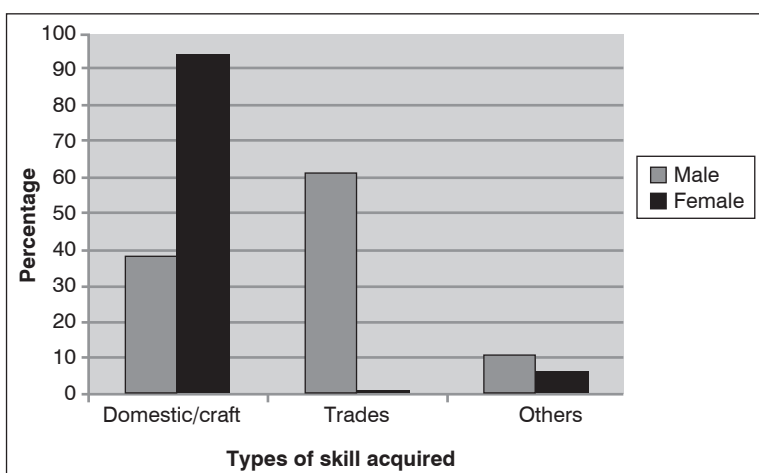
Commercial training providers play a vital role in the provision of TVET in Uganda; about 600 are registered, and train 40,000 people p.a., whereas public institutions cater for only 9,000 students p.a.¹⁰³ According to the EC study, most training institutions are facing a funding crisis since the abolition of cost recovery in 2001; total income has fallen by 40%, despite receipt of some government subsidy. The study identifies other problems, including:

- a fragmented structure for the industry, for example in terms of certification and qualifications awarded
- a preference for white-collar and technician training, over the more practical (and needed) craftsman skills
- curricula too focused on traditional skills, rather than being adapted to new demands and needs;
- little outreach into rural areas

Even commercial training providers find that they are closely tied to the public sector; for example, their trainees usually demand an official certificate, rather than just a certificate of attendance, and this means that training providers can not tailor their courses exactly to the needs of the private sector.

The EC study also comments, in passing, on traditional apprenticeships, reproducing the figure on the side. This Figure mainly shows the gender differences between males and females participating in traditional apprenticeship training, rather than the overall participation rates or outcomes.

The form of traditional apprenticeships varies between countries; for example, in some countries, the apprentice is paid a small salary, whereas in others, the apprentice pays for the benefit of being trained. In general, though, apprenticeships are awarded to young people already known to the owner of the business, and this practice favours the well-connected.



Source: Uganda DHS EdData Survey 2001, p.59.¹⁰⁴

¹⁰³Skilled Manpower in Uganda: A study on the need for modern Business, Technical and Vocational Education and Training (BTNET), Sarah Nalumansi et al for the European Union, June 2003.

¹⁰⁴as cited in Skilled Manpower in Uganda, European Commission, June 2003

It probably does not reach the poorest of the poor, except perhaps in the case of some rural trades, such as blacksmithing. In addition, the training provided is of variable quality, partly because the trainer may lack teaching skills, and partly because of fear that the apprentice may eventually set up his/her own business in competition with the trainer. Nonetheless, there is potential to enhance training provided through traditional apprenticeships.

A detailed survey was conducted by FIT Uganda (a local consultancy firm) in 1998; it profiled commercial 160 trainers, and 89 training enterprises, operating in 21 towns across Uganda. While now somewhat dated, it is worth mentioning that the courses were then costing the trainees Ushs 30–60,000 per term. Most of the trainers were earning Ushs 100–200,000 per month, while those employed by the training institutions earned less, typically Ushs 50–100,000 per month. The training was often relatively long, but on a part-time basis.

The table below summarises some of these findings, in comparison with findings in other countries at that time; the Table illustrates the spread of subjects covered by commercial training providers.

	Uganda		Zimbabwe		4 Nairobi rural and low income neighbourhoods	
Number of courses surveyed	352		167		50	
Management-related skills (%) Business mgmt. and admin	17		5		Na	
Marketing	8		1		Na	
Book-keeping, accounting	17		1		Na	
Misc. specific management (e.g. clearing & forwarding)	3		0		Na	
Total % management-related skills		45		12		12
Vocational skills % Secretarial	12		17		14	
Computer- related	10		35		12	
Dressmaking, tailoring	5		27		16	
Woodwork	9		1		6	
Metalwork	6		1		0	
Mechanics	4		3		12	
Building, electrics, catering, hair dressing, photography, driving	9		4		28	
Total % vocational skills		55		88		88
Totals		100		100		100

Sources: The Wheels of Trade, quoting from FIT Uganda, 1998 (unpublished); Bennell P. et al, Vocational education and training in Tanzania in the context of economic reform, DFID Nairobi, 1998; FIT Kenya, 1999 (unpublished)

D. Illustrative case studies: Profiles of private training providers

Unfair competition¹⁰⁵

Dorcas, who lives near Fort Portal, had trained for NGOs in the past, but she never thought of making it a full-time business. Normally she waited for an NGO to contact her and ask her to conduct a course. When she saw an advertisement in the national paper offering a trainer-of-trainers course in Rapid Market Appraisal (RMA), she thought about marketing her skills directly to the small enterprises, and sent off her letter of application.

After attending the course, she was convinced that she had something worthwhile to offer her new clients, and she began trying to market herself by talking to people working in small businesses locally. She had invested \$40 in the training-of-trainers course and was very eager to try out her new skills and recover her investment.

Marketing the first RMA course did not prove easy. A government-sponsored NGO had recently organised training for small businesses that was completely free and culminated in a party with

¹⁰⁵The Wheels of Trade: Developing Markets for Business Services, by Milena Hileman and Jim Tanburn, IT Publications, London, 2000.

free drinks and roasted meat. People with small businesses asked her why they should pay her for training when others offered these incentives.

Dorcas explained to them that she was a business person like themselves, and just as they cannot offer free products to their customers, neither could she. This line of reasoning made sense to her clients and helped them to identify with her. Finally she had enough clients to hold the first training (each paid approximately \$8).

They responded enthusiastically to the training and, through word of mouth, the next session was much easier to organise. Her customers reported that one of the reasons they preferred Dorcas' training was because she trained in their local language, making learning easier and more enjoyable.

Peanut-butter producer turns trainer

Mary operates a peanut-butter production enterprise - she supplies three local supermarkets--and runs a training business, which is her main source of income. Her experience as a trainer began when she was accepted for a Training of Trainers (ToT) course to offer Improve Your Business (IYB) to others running small businesses locally. Since then, she has attended two ToT courses sold by FIT Uganda, Rapid Market Appraisal (RMA) and Grassroots Management Training (GMT).

She reports that the latter are more suited to her clients because they do not require literacy. She is able, at times, to get financial assistance in offering IYB courses, but "If I cannot get sponsorship, I just charge the full costs." In fact, Mary earned more on her IYB courses before she had access to the subsidy, because her trainees were willing to pay more when there was no donor involved.

For GMT and RMA no subsidy is available, but "this is not a problem because the small enterprises are willing to pay anyway, especially those who cannot read and write, because they realise much better that they need the course." In fact, Mary says that the poorest clients are often the most eager to pay because they have been excluded from funded training programmes, which normally require some degree of literacy.

Training in management skills is more lucrative than the highly competitive peanut butter business, but Mary says, "I keep the peanut butter production because it helps me be accepted among my training customers." Her customers appreciate the fact that her training is offered from a small-business base. Recently she asked a group of business people from the neighbouring region why they had initially been reluctant to try her training, but later extremely enthusiastic. They said they were wary of trainers who came from far to "use us to make lots of money" (from donors). Once they realised that Mary was just like them, a small businessperson with her own simple training business, they were eager to learn from her.

One of Mary's objectives is to develop and maintain long-term business relationships. She visits her clients regularly to provide free business advice, for several reasons. First, she wants to ensure that the students absorb the lessons she teaches so that they can see results from the training. This improves her image as a trainer and makes her feel that her efforts are worthwhile. Second, the visits help her improve her business network, so she can sell more courses and management materials. "I sell stock cards and cash books which I print myself. Small business people often don't want to sit down and make them themselves." Thus, Mary offers three services to small enterprises – micro consultancy, supply of management aids, and training—while developing business networks that benefit herself and her clients.

E. Opportunities and threats to the private vocational training market

From a long-term, strategic perspective, training is clearly of central importance to national development; Uganda needs skilled women and men in many disciplines. There is already a

market for training in the private sector, and, with the on-going BTVET reform, there is a clear opportunity to develop that market.

One threat to the development of a training market is the high demand for skilled people in many areas, making it difficult for training establishments to attract and retain suitable instructors. HIV/AIDS is clearly also a threat, since it often affects most the people in mid-career who would otherwise be best placed to pass on their skills.

F. Conclusions

The training market exists in Uganda, and the ongoing BTVET reform could be encouraged further. Development agencies in particular are not taking a pro-active stance at present in developing it, preferring to deliver training quickly to a chosen target group. Matching grants may be developing the market, but there is little data on these impacts, either way. The current modality of focusing on financial assistance may not be effective, without other complementary functions, to provide information to the target group and to encourage innovation, consistency, and service quality among training providers.

G. Recommendations

Enhancing outreach of the service towards the poorest is likely to take some time. According to the most recent data available, prices for vocational training courses start at perhaps Ushs 30-60,000 per term. If the average monthly consumption expenditure per rural household is Ushs 113,300, then such courses are within reach of many Ugandans, although not the poorest of the poor. Other, less formal arrangements, including for example traditional apprenticeships, could therefore be explored; even these, however, tend to be allocated to those already known to business owners, a practice that favours the well-connected.

Policy makers could develop more pro-active policies to develop the training market; these may include:

- setting National Vocational Qualifications, and developing a market for training of trainers
- stimulating the flow of information for potential trainees about institutes and courses (content, timing, price, relative popularity etc.)
- fiscal incentives to vocational training institutes of all kinds

Stricter regulation of vocational training institutions is not recommended, since this has tended elsewhere to lead to greater opportunities for officials to demand unofficial payments, rather than improving the quality of training provided.

Donors, in support of policy goals, could think explicitly about how to enhance the current market in vocational training. This might include the avoidance of unfair competition with private trainers through the excessive use of subsidies for training delivery. Pro-active measures to address market failures and develop a vocational training market could include those listed for policy-makers, above, and:

- the development of new support industries for training institutes, for example:
 - o to offer the management skills they need to 'grow' their business (particularly in marketing) and
 - o to enable them to meet UVQF requirements
- assisting the training industry to develop its voice with policy makers

The **Private Sector**, in the form of the private training institutes and business associations, can work in a more concerted way through the PSC, UGAPRIVI, UMA and other associations to achieve greater recognition with policy makers, and to negotiate a constructive relationship with training facilities in the public sector. In particular, the PSC needs further strengthening, to fulfil its potential.

10 CONCLUSIONS AND RECOMMENDATIONS FOR SERVICE MARKETS

The preceding Chapters have illustrated many important insights into the nature of the development process. It is now clear that the poor are already living within complex systems, and the best results will be achieved if these realities are taken into account. In each service sector, there are individual conclusions and recommendations for the various stakeholders; in this Chapter, they are summarised briefly, below, before some general or multi-sectoral conclusions and recommendations are formulated.

Commercial radio stations are able to respond to the demand from particularly the rural poor, generating content that is both developmental and attractive. This trend would be helped if development agencies were willing to give more editorial control to stations, rather than purchasing air time; the radio industry itself could also achieve greater coherence. Ownership of (or access to) radios is probably the most critical constraint in reaching the poorest Ugandans in rural areas.

Similarly, the achievements of appropriate regulation in **financial services** have been impressive; nonetheless, there is a potential conflict between political pressures to expand outreach into all parts of the country, and the objective of building a sustainable and robust financial system. The most feasible regulatory option in the short term may be to focus on consumer education, and capacity building in the smaller and more rural financial institutions. Nonetheless, there is neither the branch network nor the financial products available yet to reach the poorest Ugandans.

Telecommunications, and in particular mobile telephony, have also shown great achievements; careful deregulation has ‘crowded in’ investors, and partially achieved some developmental goals too. Some policy anomalies remain, however, for example around taxation of air time. There are also formidable challenges ahead, for example around extending teledensity and generating additional content relevant to Ugandans. Achieving these challenges probably depends on building a larger market for middle-income groups, before outreach can be extended further to the poorest.

In **Education**, private investment has enabled a rapid increase in the number of secondary schools in Uganda, in response to the increased demand generated by Universal Primary Education; fees may be as low as \$25 per term. These schools are also generating significant export revenues to neighbouring countries. Meanwhile, subsidies to denominational schools are apparently not always reaching those who need them most. Proposed legislation to require investment in laboratories and libraries could threaten the existence of many secondary schools; the school’s reputation with parents probably remains the best regulatory mechanism for the time being.

Private sector provision of **primary health care** for the poor is important, particularly when the large number of traditional healers is taken into account. However, people without appropriate qualifications are operating many rural clinics, and a curriculum needs to be developed for such people. Again, enforcement of existing regulations is not likely to be helpful; instead, the reputation of providers is the best mechanism, accompanied by information for health-care consumers. Health insurance and health management are being extended by the private sector to relatively low-income people, and this mechanism is showing great promise; premiums under Ushs 10,000 (\$5.40) per family per month may be viable.

In **public transport**, existing regulations on the licensing of drivers and vehicles are often not rigorously observed, leading to a high level of accidents on the road. Meanwhile, the Uganda Taxi Operators and Drivers Association (UTODA) uses its quasi-monopolistic control of the taxi parks to control prices and impose some degree of order on an otherwise chaotic industry. While this is impressive, there is a potential conflict of its role representing members, and its duty to enforce regulations. There may also be merit in allowing more competition for the contracts to manage the taxi parks.

Agricultural extension has historically been provided free-of-charge, and so expectations are high, for example to receive one-to-one advice. Given the current level of financing, however, it is no longer feasible to offer this; the National Agricultural Advisory Services (NAADS) programme is channelling up to \$108 million into achieving a transition to more sustainable provision of such services. At present, however, farmers only have to pay a very small proportion of service costs, and linkages to actual market demand remain weak. It may be more realistic to look to services provided through value chains (traders, suppliers, exporters etc.) and through the mass media, for sustainable and large-scale provision in the near future.

Many establishments and individuals in the private sector in Uganda provide vocational training, but little has yet been attempted to develop this market. Some subsidies have been made available, but probably not in ways that will achieve long-term development of the training market.

Some recommendations can be noted across virtually all service sectors, and these are outlined below.

The need for cross-sector approaches to market development

Development aid is mostly administered and shaped by large organisations, which need to divide their overall activities into compartments; indeed, it is hard to see how they would allocate budgets and responsibilities if they did not. But poor people don't live in these compartments; their lives are affected by many of the themes adopted by development people, and this is illustrated vividly in the case of service markets. For example:

- roads and transport systems are core determinants of access to health care and markets
- children in many schools (including private schools) have acute health problems, and indeed the schools provide a potential conduit for treating those problems
- agricultural extension information provided over the radio, mobile phones or even the internet can be crucial in improving farmers' wellbeing

Despite the organisational challenges, therefore, ways must be found to act across disciplines, to develop common concepts and strategies. This will lead to durable improvements in wellbeing, and also avoid frustrated efforts caused by misunderstandings; for example, health professionals purchasing airtime and dictating content on commercial radio stations risk undermining the efforts of others to build the programming and journalistic capacity, and independence of those stations.

The need for sharing knowledge and experiences in market development

Some government officials are experts in developing regulatory policies that encourage service markets to develop; many, however, are not. The suggestion was made in a recent workshop, for example, that private schools should be taxed if their profits exceeded a certain amount, to prevent 'excessive' profit-making and to ensure that fees were affordable to the poor. In reality, this 'windfall tax' would create perverse incentives, and would be unlikely to have the desired results. Similarly, setting a price ceiling may be intended to protect the poor from profiteers, but is more likely to reduce access to the service - or to lead to the creation of an even higher-cost "black market".

As an alternative, encouraging more schools to open, thus bringing profits down to more reasonable levels would be a more durable solution. This illustrates the potential for working with, rather than against, market dynamics in order to achieve pro-poor outcomes; markets can work for the poor. Moreover, since the lives of the poor are increasingly touched by markets, policy makers need to think of ways to harness market dynamics.

Calls for more government regulation also need to be tempered with a realistic assessment of what can be enforced in practice. Additional regulation may sometimes serve to stimulate rent-seeking behaviour rather than to achieve real gains on the ground. Besides, there are many alternatives; the Table below summarises some of the alternatives to legislation for government¹⁰⁶. Government officials may therefore appreciate advice and input in this area, for example to include:

The UK Government's Department of Trade and Industry lists 18 alternatives to formal legislation	
• Do nothing	• Recommendation schemes
• Self-regulations	• Working with representative bodies
• Co-regulation	• Pre-market assessment schemes
• Information and education campaigns	• Post-market exclusion measures
• Financial (Tax) incentives	• Services charters
• Tradable permit schemes	• Codes of practice
• Guarantee arrangements	• Standards (voluntary and regulatory)
• Mediation services	• Mandatory audits
• Quality marks	• Ombudsmen

- training in the underlying concepts and strategies
- cross-fertilisation between Ministries which have notable achievements in this area, and Ministries that are just beginning to grapple with the issues
- examples and lessons learned from other countries which have had notable successes or learning experiences in making service markets work for the poor
- Expert inputs to tackle particularly challenging service sectors, such as that of traditional healers and rural clinics, private education as an export industry etc

Roles for consumer organisations

C.K. Prahalad argues that the key to durable, long-term development is the emergence of consumer power, particularly among the poorer levels of society in developing countries¹⁰⁷. Indeed, in the case of exports, consumer power is changing behaviours among suppliers and producers, for example through the Fair-Trade and organic movements.

The case of the health sector in Uganda showed the potential of a nascent consumer organisation; it is showing the value of impartial reporting of the perspectives of patients and other users of health care services in Uganda. The results have been surprising, and in some cases, even shocking.

However, while consumer organisations lead powerful lobbies in industrialised countries, it is not yet clear how equivalent organisations in developing countries can be viable at this point; consumers are not yet sufficiently wealthy or assertive to support such initiatives in most cases. Alternatives may therefore have to be considered, including for example campaigns to raise awareness and educate consumers about what is available, their rights and options, etc.

¹⁰⁶Better Policy Making - A Guide to Regulatory Impact Assessment. Regulatory Impact Unit, UK Government Cabinet Office, London, 2003 (as quoted in Making Markets Work for the Poor, by David Ferrand, Alan Gibson and Hugh Scott, Commark, 2004 www.bdsknowledge.org/dyn/bds/bdssearch.details?p_phase_id=360&p_lang=en&p_phase_type_id=6

¹⁰⁷www.whartonsp.com/title/0131467506

Roles for larger companies

The health sector study also shows what a determined Health Management Organisation may be able to achieve, to develop a whole health service industry in ways that are pro-poor. Bringing premiums down to less than Ushs 10,000 per month is making health care affordable to a large number of Ugandans; the main challenges then are to raise awareness about the benefits of insurance, and to inspire confidence in the insurance companies involved.

The case of telecommunications, and particularly the activities of MTN, also show the potential for market-based innovations to extend access, for example if companies are willing to adopt a low-margin, high-volume business model.

The challenge now is to raise awareness among larger companies about the potential; a recent presentation by N. Popat of Unilever Uganda indicated some of the possibilities, for example through making consumer goods available in much smaller packages; more could be done to build on the momentum for this kind of initiative in the private sector. It is very much to be hoped that all those interested to develop service markets can come together, to form a 'critical mass' of practitioners who appreciate what the private sector can do (and indeed in many cases is already doing).

Such people see this not as a threat but as an opportunity - in particular, to enhance that provision and to redirect available resources towards the most deserving cases. The evidence presented in this report is part of an initiative to move the debate away from emotive references to 'trickle down', and towards pragmatic thinking about how to get the best value from the public funds available.

MAKING SERVICE MARKETS WORK FOR THE POOR

The Experience of Uganda

Wherever there are gaps in public services, the private sector will move to fill them; how should policy makers relate to these commercial providers?

Tanburn and Kamuhanda consider this question in a variety of service sectors: mass media, financial services, telecommunications, secondary education, primary health, public transport, agricultural extension, and vocational training.

They find a wide range of attitudes and treatments in the different disciplines, and conclude that it would be highly effective to support for policy-makers in developing service markets for the poor.

This ambitious review incorporates a wealth of information across disciplines and sectors, and raises a number of important questions. For example, when do the poor prefer private-sector service providers? And why are they so popular in some service sectors?

Indeed, some service sectors have benefited from careful regulation, which has encouraged investment, raised service quality and reduced prices. In other sectors, however, further research is needed; little is known, for example, about the extensive network of traditional healers in Uganda.

The review concludes that there is still great potential in all service sectors to extend the access frontier; the poorest Ugandans are not benefiting to the extent that they could, with the possible exception of commercial radio.

