Uganda

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1 Introduction

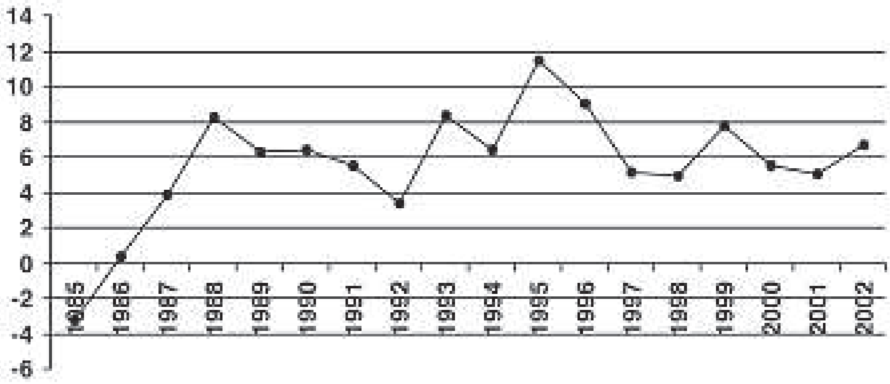
Uganda has gained widespread recognition as one the most successful turnaround states in Africa. From a situation of acute economic and political crisis in the late 1980s it has achieved macroeconomic stability and sustained economic growth, steady reduction in poverty and improvement in many indicators of human development (World Bank 2004). Peace and political stability have been restored in many parts of the country. Against these impressive achievements, life expectancy is below the level for sub-Saharan Africa as a whole, largely because of the HIV/AIDS pandemic, and the proportion of subsistence farmers living in poverty remains high. Uganda's population in 2001 was 24.2 million, growing at an annual rate of 3.5 per cent.

This article examines the reasons for Uganda's successful turnaround through the lens of political economy. Conventional wisdom attributes Uganda's success in economic reform to several critical factors: strong political commitment, high government capacity and the willingness to learn from knowledge and experience outside the country (Harvey and Robinson 1995; Hölmgren *et al.* 2001). Each of these explanatory factors is subject to critical scrutiny in order to assess their relative contribution to Uganda's turnaround since the late 1980s.

Uganda's record in addressing the root causes of conflict is examined against the backdrop of success in the implementation of economic reform and poverty reduction. Success in bringing political stability to much of the country is qualified by violent insurgency in the western and northern regions, and the repercussions of military intervention in the civil war in neighbouring Congo. While the conflict in the west has been largely subdued, the war in the north continues unabated with major implications for poverty and growth in the region and adverse consequences for relations with Uganda's neighbours, threatening to undermine the gains of sustained reform and political stability enjoyed by the rest of the country.

Data on economic growth, human development, and the degree to which violent conflict has ended

Figure 1 **Real economic growth rates in Uganda, 1985–2002**



Source World Bank, World Development Indicators CD-Rom.

Table 1 **Human development index for selected African countries, 1985–2001**

	1985	1990	1995	2001
Kenya	0.510	0.535	0.519	0.489
Uganda	0.402	0.403	0.412	0.489
Zimbabwe	0.626	0.614	0.567	0.496
SSA	–	–	–	0.468

Source UNDP, *Human Development Report 2003*.

provide the key point of reference for determining the nature and extent of turnaround. The data on economic growth in Figure 1 provide evidence of sustained growth, averaging 6 per cent per annum in the late 1980s and reaching a peak of nearly 11.5 per cent in 1996.

Trends in the human development index for Uganda show steady improvement over the past 15 years, from 0.402 in 1985 to 0.489 in 2001, comparing favourably with economically more advanced countries like Kenya and Zimbabwe, which displayed a declining trend over the same period (Table 1).

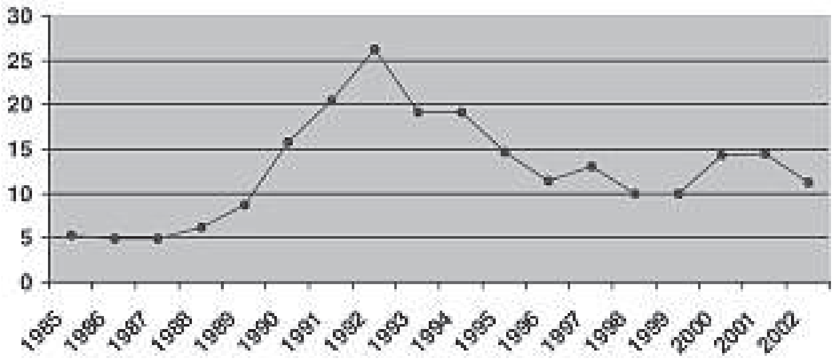
Uganda's turnaround can be explained in significant measure by a virtuous combination of capable government technocrats with a strong political mandate and sustained support from aid donors. Political leadership in the form of President Museveni was critical to the success of the reform package and the engagement with the international community. The institutional framework developed by government policy-makers gave rise to a series of carefully sequenced reforms that in turn paved the way for economic stabilisation and subsequent growth and poverty reduction. Aid donors responded positively to the favourable policy environment, offering significant and growing levels of financial aid combined with technical assistance that was used to considerable effect by the government. The ideas and influence of aid donors contributed to policy design and helped to ensure continued government adherence to policy commitments through the use of conditionality. Growing levels of ownership helped to sustain the momentum of reforms and create a receptive environment for increasing levels of aid (Kasekende and Atingi-Ego 1999; Hölmgren *et al.* 2001; Reinikka and Collier 2001). The significance of foreign assistance is confirmed by high levels of aid flows from the late 1980s, reaching one-quarter of national income in 1992, and ranging from 10–15 per cent thereafter (Figure 2). Foreign aid continues to account for a significant share of government expenditure, equivalent to 52 per cent of the government budget in 2004.

2 Political instability after Independence

Uganda's turnaround in the past two decades has to be viewed in the context of the economic decline provoked by political stability and a gradual descent into civil war in the 1980s. The main cause of political instability was contestation for political power among rival ethnic and religious groups following Independence in 1962, principally between the traditional Bantu landowning elites in the south and west of the country and various Nilotic peoples in the north and east. There were also differences of language and religion. The traditionally dominant Buganda and Ankole in the south were largely Catholic, while Protestantism held sway in Northern Uganda (Kasozi 1999).

Increasingly authoritarian civilian rule under President Milton Obote gave way to military dictatorship under Idi Amin in the 1970s. The Amin regime was deposed through Tanzanian military intervention in 1979, and fresh elections the following year returned Obote to power for a second term following two short-lived military governments. The elections were widely viewed as fraudulent and provoked armed opposition from various military groupings that coalesced into the National Resistance Army led by Yoweri Museveni, with strong representation from ethnic groups in the south and west of the country. The military insurgency provoked bloody reprisals on the civilian population on the part of Obote's troops in the Buganda heartland. Obote was toppled from power by a military coup in 1985 that installed a short-lived government under General Tito Okello. Failed talks with the insurgents led to intensified

Figure 2 **Overseas aid as a percentage of gross national income in Uganda, 1985–2002**



Source World Bank, World Development Indicators CD-Rom.

military struggle leading to a National Resistance Movement (NRM) victory in January 1986.

While it had a strong base of support among ethnic groups in southwest Uganda (especially the Banyankole and Banyarwanda), the government was initially broad-based in composition, drawing former opponents and representatives of the mainstream political parties and ethnic groups into the political executive. The NRM government is based on the Movement system of politics in which political parties were tightly regulated and prohibited from contesting elections until a referendum in favour of a multi-party system in 2005. The original intention was that the no-party system would be a transitional arrangement to contain the ethnic and religious rivalries that had been the principal cause of violent conflict in earlier years. All members of parliament represented the Movement and elections were contested on individual merit. While the Movement system was not conducive to political competition, many observers concede that reasonable freedom of association and expression was tolerated by the government, with regular national and local elections, an active civil society and relatively free media. More critical observers claim that the Movement regime is increasingly assuming the character of a one-party state dominated by a political and ethnic elite with a power base in southwest Uganda, despite the recent transition to a multi-party system (Mugaju and Oloka-Onyango 2000).

Soon after coming to power in January 1986, the NRM was faced with a number of insurgencies on its northern and western borders from armed groups opposed to Museveni, which owed allegiance to former regimes and capitalised on deep-set regional grievances. The NRM sought to impose peace through a combination of negotiated settlements with armed groups, military force and political cooptation. The government is credited with the achievement of a durable cessation of conflict in many parts of the country after years of political instability and endemic violence rooted in religious and ethnic rivalries (Kreimer *et al.* 2000). But while the NRM managed to establish peace across much of the central region, conflict continued in much of the north and west, with no less than 14 separate violent insurgencies breaking out after 1986 in various parts of the country (Lomo and Hovil 2004). Despite recent efforts to end the war in the north through peace negotiations and intensified military operations, the government has been markedly unsuccessful in addressing the root causes of conflict in the region which continues to be ravaged by war and violence, resulting in development and poverty outcomes that are much inferior to the rest of the country (Robinson 2004a).

Following an initial period of resistance to liberalisation and structural adjustment measures after the NRM attained power, Uganda's trajectory of economic reforms can be divided into three phases: contestation and reluctant adoption from 1987 to 1991, committed ownership from 1992 to 1998, and reform consolidation from 1999 to the present. These are broadly consistent with a sequence of reform respectively characterised by stabilisation and recovery measures, structural adjustment and liberalisation, and structural and institutional reforms. The major features of the policy reforms in each of these periods are briefly reviewed in the remainder of the article, with particular attention to growth and poverty outcomes. The design and management of economic and institutional reforms in Uganda offer important lessons for successful turnaround from a variety of vantage points: political commitment, the timing and sequencing of reforms, the strategy for accommodating potential opposition and broadening support for reform, and the role of aid donors in providing ideas, advice and financial resources in support of reform.

3 Economic decline and the path to recovery, 1986–91

The NRM government came to power in January 1986 with a clearly stated commitment to the Ten-Point Programme that was developed during the armed struggle against the Obote II and Okello regimes. Its key premises included state-led economic development, the elimination of corruption, decentralisation of power, and democracy (Twaddle 1988).

The new government inherited an economy in ruins. The rate of inflation was very high, running at an annual rate of 150 per cent, occasioned by economic mismanagement and the scarcity of basic goods. The official exchange rate was highly overvalued with unofficial rates many times greater, curbing the level of exports. Government finances were so weak that foreign exchange reserves provided just two weeks import cover. The banking system was unable to provide loans for working capital and productive investment on account of insolvency. Growth rates went into reverse with real gross domestic product (GDP) declining by 10 per cent between 1984 and 1985. By this time the economy had shrunk by more than 20 per cent compared with a peak in 1970. Aid flows had fallen to very low levels following a modest recovery in the form of quick-disbursing International Monetary Fund (IMF) credits to assist with economic stabilisation in the early 1980s (Kasekende and Atingi-Ego 1999; Hölmgren *et al.* 2001).

Faced with the severity of the economic crisis, the government commissioned an in-depth study of the economy by national and international experts to make recommendations on policy options to stimulate economic growth. There was considerable resistance in the NRM political executive to IMF policy prescriptions founded on stabilisation and economic liberalisation that were associated with the failed policies of the Obote II government. Consequently, the government endorsed an approach premised on increased government intervention, retaining control over foreign exchange rates, which were revalued upwards, and extension of controls over the prices of essential imports (Ochieng 1991; Harvey and Robinson 1995: 3–4). The effects of these decisions were disastrous for macroeconomic stability: inflation escalated to over 300 per cent by May 1987 and there was further deterioration in most economic indicators.

The chronic economic situation provoked a far-reaching reassessment of these policies and persuaded the government to resume dialogue with the IMF and the World Bank over advice and financial support for an Economic Recovery Programme (ERP). The ERP sought to promote economic stabilisation and long-term growth by mobilising investment in physical assets and rehabilitating infrastructure. A series of policy measures were implemented in pursuit of these objectives led by currency reform and a sharp devaluation of the exchange rate. These measures were the first in a sequence of reforms that cumulatively produced Uganda's gradual turnaround.

The government deepened the acceptance and ownership of the new policy package by virtue of strong political leadership and the development of a technocratic cadre charged with implementing the economic reform agenda. The personal involvement and authority of President Museveni was a decisive factor in deepening political commitment and bureaucratic compliance at a time of considerable opposition to structural adjustment reforms from within the NRM. Success in containing armed rebellions in different parts of the country further strengthened the President's political authority and provided assurance to potential detractors that a sharp course correction would not undermine fragile political settlement that had been achieved with the installation of the Movement regime.

The change of policy direction was gradually legitimised through careful deliberation of reform options, key technocratic appointments and institutional reform. The President created and chaired the Presidential Economic Council as a decision-making body that fostered debate on policy options for structural adjustment reforms with the assistance of independent experts, seminars and public discussion papers (Harvey and Robinson 1995; Lamont 1995; Tumusiime-Mutebile 1995). An experienced technocrat and reform advocate was appointed as the Permanent Secretary in the Ministry of Planning and Economic Development, who in turn recruited an able set of young economists to work on reform implementation. A critical moment for the reform process came in the form of a special government seminar for politicians, officials and academics in December 1989 when the arguments in favour of economic liberalisation prevailed, with legalisation of the parallel market in foreign exchange, a measure that exceeded the conditionality imposed by the International Finance Institutions (IFIs).

A second major turning point took place in late 1991 with the merger of the Ministries of Finance and Planning into a single Ministry of Finance, Planning and Economic Development (MOFPED). The merger was occasioned by the failure to control public expenditure on account of the monetisation of the budget deficit, which in turn resulted in the government reneging on IFI loan conditionalities, and an upturn in inflation. The Minister of Finance was sacked and the new ministry received a strong political mandate for reform, marking the beginning of a new phase in the reform process (Harvey and Robinson 1995; Lamont 1995).

The results of this phase of the reform process were very positive: lowering of the annual inflation rate from 190 per cent to 28 per cent by the end of 1991; revival of GDP growth rate from negative figures to an average of 6.3 per cent per year over 1988–91; and gradual recovery of exports and public and private investment rates (Hölmgren *et al.* 2001: 121). These outcomes were not dramatic in global terms but marked the beginning of a process of turnaround that was deepened and consolidated over the ensuing decade.

Aid donors played a critical role in this early phase of reform. Financial aid was critical for stimulating public investment in infrastructure and balance of payments support to restore financial stability. Over a five-year period from 1987 to 1992, the World Bank provided more than US$ 1billion in quick-disbursing policy-based credits, supported by highly concessional bilateral grant financing for adjustment operations. Loan conditions ensured government adherence to reform prescriptions and strengthened the hand of reform-oriented technocrats. Technical assistance from aid donors also played a role in sustaining the reform process. The government commissioned reports from independent experts paid by donors. Government officials went on donor-funded study tours to Ghana to learn from its successful adjustment reforms. Foreign economists were placed in placed in key ministries to serve as advisers and train Ugandan counterparts (Hölmgren *et al.* 2001).

Political commitment and the support of aid donors were the critical ingredients in this early phase of reform. Political opposition was gradually sidelined as pragmatic arguments in favour of economic reform became ascendant in policy debate. The disastrous experience of the first year of NRM in office with its emphasis on price controls and government intervention helped to persuade the President of the need for reform. Advice from technocrats and aid donors gradually convinced the President that alternative approaches would not work. The legitimacy acquired from the Movement's success in bringing an end to conflict in many parts of the country strengthened the hand of the President, giving him the confidence to depart from the interventionist approach advocated in the Ten-Point Programme. Government technocrats gradually came to dominate the reform agenda and bureaucratic resistance dissipated once the results of the reforms became apparent. These developments provided a solid foundation for donor assistance that was critical to the successful implementation of stabilisation and structural adjustment measures.

4 Government ownership and deepening reform, 1992–8

The second phase of reform in Uganda was characterised by deepening government ownership, reflected in the decision to embark on a series of ambitious and potentially contentious structural and institutional reforms from the early 1990s. The government also reformed its monetary and financial policies by instituting a cash budget system to control public expenditure, ensuring real interest rates on government borrowing through Treasury bills, further liberalising foreign exchange allocation and exchange rates, and removing government controls over interest rates to improve access to credit (Hölmgren *et al.* 2001: 122).

Key structural reforms introduced in this period included the creation of a semi-autonomous tax body (the Uganda Revenue Authority – URA), the removal of the monopoly of the Coffee Marketing Board and the abolition of the export tax on coffee. The government also paved the way for far-reaching reforms in the civil service following the recommendations of a Public Service Review and Reorganisation Commission established with presidential backing in 1989. The civil service reform programme that it gave rise to sought to rationalise and restructure government ministries, downsize the civil service establishment through payroll reform and redundancies and move towards a minimum living wage for civil servants.[1]

The government proceeded with a programme of military demobilisation from the late 1980s to reduce pressure on the budget and to compensate potential losers from the reform who could pose a threat to political stability. The military defeat of armed rebellions in the north of the country gave President Museveni the confidence to proceed with this potentially controversial measure, while aid donors provided resources to compensate demobilised soldiers and integrate them back into civilian life. The government also embarked on an ambitious decentralisation programme, institutionalising five tiers of local councils in line with its stated commitment in the Ten-Point Programme to devolve substantial responsibilities and resources from central government (Regan 1998).

The main outcomes of the policies adopted in the period 1992–8 were reflected in a positive supply side response and further progress on macroeconomic stability. This found expression in a sustained growth rate of real GDP of 7.6 per cent per year (over 3 per cent *per capita* growth), an increase in private sector investment from 9 to 13 per cent of GDP, a reduction in inflation to single digit figures, an increase in foreign exchange cover from two to five months of imports, and a fall in the current account deficit from 6 to 4 per cent of GDP from 1992 to 1996 (Hölmgren *et al.* 2001: 123). The annual rate of consumer price inflation fell from 24.6 per cent in 1990/1 to -0.2 per cent in 1998/9 (World Bank 2000: 1). There was a positive supply side response in the agriculture sector, with a significant expansion of production and increase in exports of coffee and cotton, attributable in significant measure to liberalisation of agricultural marketing and high world coffee prices (Dijkstra and Van Donge 2001).

Tax revenues expanded from a low of 2 per cent in 1986 to 12 per cent by 1996, in large measure due to simplification of tax assessment and improvements in the efficiency of tax collection under the URA. There was considerable progress in civil service reform with rationalisation of the number and functions of ministries, monetisation of housing and transportation allowances, halving of the number of civil servants through elimination of 'ghost workers' from the payroll, a generous voluntary severance package, and redundancies for casual employees (Harvey and Robinson 1995). There was slow and steady progress on pay reforms with a series of increases in but without achieving the declared objective of a minimum living wage by 1996 (Robinson 2004b).

Stronger government ownership of the reform programme was manifest in a number of areas. The President displayed active commitment to various reform initiatives, convening the Presidential Economic Council on a regular basis, initiating the civil service reform exercise through a special presidential commission, and provided visible support for the creation of the URA. Continuity in the tenure of the Permanent Secretary in MOFPED furthered political commitment to reform on account of the close relationship maintained with the President. His economic policy team attracted highly motivated technocrats, many of whom had received high-quality training overseas. Decisions to embark on more challenging structural reforms were often initiated in the absence of donor support or conditionality but attracted financial assistance once commitment was evident in the preparatory and design work. There was little overt opposition to the economic reform programme during this period, largely because the debate on the merits of liberalisation and structural adjustment had been won by reform adherents by the beginning of the 1990s, with the benefits of reform becoming increasingly apparent.

The government sought to build on this reform momentum by engaging in dialogue with organised business interests and non-governmental organisations (NGOs). The private sector was able to lobby with some degree of success for changes in budget and trade policy through the Uganda Manufacturers Association and the Private Sector Foundation. Economic policy was no longer treated as the exclusive preserve of government as it was increasingly acknowledged in official circles that the private sector had a legitimate voice in accordance with its leading role in promoting growth and employment creation. Increased opportunities for consultation and dialogue deepened the credibility of government policy commitments as it distanced itself from the command economy approach that was associated with the early years of the NRM government. However, policy dialogue was restricted for the most part to well-organised private sector interests. The farming lobby, which stood to gain from liberalisation in the agricultural sector, did not exercise much leverage on the content of the reforms. NGOs were vocal in their critique of the distributional impact of the reforms, notably the uncertain impact on poverty reduction and the growing burden of debt, rather than tackling the fundamentals of price and structural reforms. The impact of their lobbying and advocacy work came to fruition in the third phase of reform, when poverty and public services were given a central place in government policy objectives.

The government combined strategies of capacity building in government with dialogue and consultation with outside interests to deepen commitment and broaden the legitimacy of the reforms. It also devised measures to buy off potential opponents of reform, notably those in the lower ranks of the civil service who distrusted the government's emphasis on market-driven reforms and acknowledged impatience with bureaucratic inertia, and workers in public sector enterprises. The civil service reform programme had the potential to elicit potentially damaging opposition to a core element in the government's reform strategy. The formation of a special presidential commission to formulate a reform strategy followed by an extended period of deliberation of policy options in the political executive was indicative of the political sensitivity of civil service reform.

In the event, there was little overt opposition from civil servants for a number of reasons. First, those hardest hit by the reforms through compulsory redundancies were casual employees who were not politically organised. Many had alternative sources of income. Second, a substantial voluntary severance package generously funded by aid donors placated potential opponents to the reforms. Third, the elimination of ghost workers (non-existent staff) only affected corrupt officials who benefited from falsified payroll records. Fourth, there was a positive incentive for those who remained in the service in the form short-term gains from salary enhancements that offset the loss of non-monetary benefits through the monetisation of allowances. Finally, the trade unions were very weak and beset by factional struggles, and were not in a position to rally opposition to the reforms, despite legislation that gave legal recognition to unions representing civil servants, medical staff and teachers, and conferred rights to industrial action. URA staff were recruited on very favourable terms with salaries several multiples of what they had received as civil servants working for the Ministry of Finance, ensuring that monetary incentives offset the loss of pension rights and contractual terms of employment. None of these measures had adverse economic consequences as the costs of reform were largely borne by donors and increased salary costs were covered by substantial payroll reductions and increased tax revenues.

Opposition political parties were unable to mobilise against the government on account of the ban on organised party activity outside the Movement and because they lacked the analytical skills and resources to counter the government's superior technocratic capacity. The opposition was not well placed to mobilise public opinion as it was closely implicated in the disastrous economic policies of previous governments and the NRM was credited with achieving significant turnaround of the economy and achieving some measure of political stability. The most serious armed threats in the border regions were contained through a combination of military force and peace negotiations by the early 1990s.

The aid donors did not become directly engaged in efforts to mobilise support for the reforms but often provided the resources for consultations, workshops and seminars in which economic policies were presented and deliberated with a cross-section of Ugandan civil society. Donors also provided direct financial support for think tanks and business associations that were firmly wedded to the economic reform agenda, notably the Economic Policy Research Centre, Uganda Manufacturers Association, and the Private Sector Foundation. The most significant financial outlay was for the generous voluntary severance package provided to civil servants through the civil service reform programme, largely funded by aid donors, which did much to allay opposition to structural reforms in the public service.

Aid donors also provided financial support for military demobilisation in the form of a package of benefits for former soldiers to enable them to find productive employment and peacefully reintegrate into society. This had the advantage of helping the government to reduce the fiscal burden of supporting a large army and assuage a potential source of discontent from soldiers disgruntled over the demobilisation process, who could in turn pose a direct political threat or join one of the insurgency groups active on the country's borders. Potential opposition from the military was also offset through the economic benefits that allegedly accrued to senior officers in the Ugandan People's Defence Force (UPDF) from Uganda's foray into the Congo from 1996 and arms deals in connection with the continued war in the north (Reno 2002; Tangri and Mwenda 2003).

The 1990s were marked by a deepening process of reform, characterised by a sequence of policy initiatives beginning with fiscal and monetary reforms and moving on to a series of structural reforms designed to liberalise agricultural marketing, reform the civil service and create an autonomous taxation agency. Achievement of the government's macroeconomic targets and infusion of significantly increased aid flows created a firm basis on which more contentious structural reforms could be pursued. Potential sources of opposition were dissipated through redundancy packages for civil servants and compensation for former combatants, while the gains for farmers and business were becoming increasingly evident. Throughout this period, the achievement of political stability through military victory and negotiated settlements with rebel forces on the country's borders provided a greater sense of security and confidence in the government's policy intentions.

5 Reform consolidation: poverty reduction and public services, 1999–2004

The challenge of poverty reduction did not feature centrally as a reform objective in the first two phases of reform when policy concern centred on growth and macroeconomic stability with less attention to poverty and equity issues. A special Programme to Alleviate Poverty and the Social Costs of Adjustment (PAPSCAD) received World Bank support in the late 1980s in recognition of the possibility that vulnerable groups would not benefit directly and in the short term from the economic recovery programme but this had only a modest impact. However, there was some evidence by the late 1990s of a decline in poverty levels.[2] The 1997 household budget survey pointed to increases in average household expenditure in rural and urban areas of 128 and 133 per cent between 1992 and 1996. Over this period the share of food and beverages in household budgets showed a small decline, while the percentage of iron-roofed houses increased from 38 per cent to 48 per cent (Hölmgren *et al.* 2001: 127).

From the late 1990s, policy-makers became increasingly preoccupied with the problem of poverty through improvements in public services and investment in agriculture which provides the primary source of livelihood for the majority of Ugandans. This concern emanated in part from the criticism levied by NGOs and academics who argued that poverty levels were not significantly affected by the economic reforms of the previous decade. Bilateral donors increasingly drew attention to the questionable impact of reforms on the poor. Another focus of non-governmental advocacy efforts was the growing level of debt that resulted from the large-scale financing of the economic reform programme by multilateral lenders. The growing burden of debt diverted resources from public expenditure on public services which were coming under increasing pressure from the growing HIV/AIDS crisis.

Several policy developments in the late 1990s centrally addressed growing concerns over poverty levels and the limited societal spread of the benefits resulting from macroeconomic reform. These were the poverty reduction strategy, debt reduction and sustained investment in public services, especially primary education.

In recognition of the need to make poverty reduction a more central policy concern, the government developed a comprehensive framework in the form of a Poverty Eradication Action Plan (PEAP) in 1997. The key elements in the PEAP were a programme for agricultural modernisation, universal primary education, primary healthcare, improving the road network and the promotion of the private sector. The objectives of the PEAP were consistent with the economic recovery programme with an emphasis on cultivating a supply-side response from poor farmers, improving services and promoting investment and economic growth as a means of providing employment. Government resources for poverty reduction are earmarked in the form of a Poverty Action Fund (PAF) that is ring-fenced in the budget.

Aid donors played a key role in the PEAP implementation by engaging closely with the government in formulating PEAP priorities and proving assistance in the form of direct budget support. This new aid instrument rapidly became the preferred mode of development assistance for Uganda from the late 1990s with the result that the principal aid donors – the World Bank and the UK Department for International Development (DFID) – now provide the bulk of their assistance in this form. The aid donors favour budget support as it reduces transaction costs and facilitates direct engagement on government budget priorities through the PEAP framework, while the Government of Uganda can engage with donors in a more coordinated manner with the predictability that direct budget support confers. Bilateral donors continue to provide project aid and technical assistance for targeted interventions and agencies where budget support may not be appropriate or where particular agencies would not receive adequate level of support through the normal budgetary process. The PEAP provides increased opportunities for NGOs and the private sector to engage in a more systematic consultative process over policy priorities and budgetary allocations. NGOs participate in a monitoring group with government and donors to oversee the implementation of the PAF.

A second element in the government's strategy was to reduce the growing burden of debt. Uganda's debt had steadily increased in the 1990s primarily on account of soft loans from the international finance institutions. Uganda became one of the first beneficiaries of the HIPC (Heavily Indebted Poor Countries) initiative which is a comprehensive approach to debt reduction for the world's poorest and most heavily indebted countries proposed by the World Bank and IMF and ratified by governments around the world. Uganda managed to reduce its burden of debt by US$ 2billion under HIPC in 1998 and from the enhanced HIPC in 2000 and successfully rescheduled its remaining debt on much more favourable terms (Dijkstra and Van Donge 2001). The savings generated by HIPC are directly invested in the PAF, principally for primary education.

Increased investments in public services constitute the third strand in the government's anti-poverty strategy by increasing the overall resource envelope for health, education and drinking water and improving the efficiency of resource utilisation. The government launched the Universal Primary Education (UPE) initiative in 1997 as a means of increasing student enrolment using HIPC resources and the PAF budget which was mainly funded by aid donors. The UPE initiative resulted in a steady increase in resources for the education sector, with an increase in its budgetary share from 18.8 per cent in 1995/6 to 22.7 per cent by 1998/9.

In an effort to improve the quality and efficacy of government spending and predictability of expenditure commitments, aid donors supported the creation of a medium-term expenditure framework under the aegis of MOFPED. They also urged the government to tackle the problem of corruption in a more direct and systematic fashion through a variety of methods, ranging from expenditure tracking surveys (which revealed considerable leakages in primary education spending), improved procurement systems in national and local government, payroll reforms, and strengthening anti-corruption institutions. All these initiatives signalled stronger donor interest in the efficacy of government spending and concerns about the diversion of public resources from poverty reduction. Greater emphasis on poverty reduction and prioritising public services was allied with closer concern about increasing levels of military spending which threatened to skew budget priorities and increase the current account deficit at the expense of health and education.

An important consequence of these measures and Uganda's continued success in maintaining macroeconomic stability and growth has been a sustained reduction in poverty incidence from 56 per cent in 1992 to 35 per cent in 2000. There was a significant decline in poverty incidence among cash crop producers but the corresponding level for subsistence farmers remained stubbornly high. An increase in the population living in poverty to 38 per cent in 2002 is attributed to poor weather rather than adversely affected agricultural production and overall economic growth rates (World Bank 2004).

The period since 1999 can be typified as one of reform consolidation, in which the Ugandan government increasingly directed its attention to the challenge of poverty reduction and improvements in public service provision. The PEAP provides a framework through which the government can mobilise a large volume of budget resources from foreign aid donors in support of its central policy objectives. Successful leveraging of resources from HIPC debt initiative enabled the government to fund sustained investment in essential services without a significant mobilisation of domestic resources. The continued inflow of donor finance for poverty-related investments permits a significant diversion of resources into defence and public administration in pursuit of a political agenda that is increasingly dominated by maintaining the Movement system through patronage and measures to ensure the support of the military. The problem of corruption has deepened as highly placed army commanders and public officials benefit from state largesse and rent-seeking opportunities conferred by ethnic and family ties (Watt *et al.* 1999; Tangri and Mwenda 2003). Maintaining a balance between the pursuit of a benign reform agenda that continues to deepen Uganda's turnaround and the prerogatives of managing the political foundations of the Movement regime which has the potential to undermine its considerable achievements to date, is the central challenge facing the Museveni government in the transition to a multi-party system.

6 Conclusions

The principal lessons from Uganda's successful experience of turnaround are a decisive break with failed strategies, internal deliberation as a basis for growing ownership on the part of government, vesting authority in technocrats charged with responsibility for reform design and implementation, and the timing and sequencing of policy reforms. The government was not single-minded in its pursuit of an economic reform agenda from the outset but rather demonstrated its willingness to learn from other countries that had successfully embarked on a reform trajectory. The government has also been willing to test out and defend its ideas in the face of criticism from internal detractors (especially in the late 1980s when a sharp change of course became necessary) and private sector and NGO lobbies. It has proven adept at consultation with organised interests and in actively promoting its policies in the public domain through the media and think tanks.

Political leadership is a significant factor in explaining Uganda's sustained turnaround. President Museveni has been at the helm of the Movement for two decades and can claim personal credit for many of the country's achievements during this period. Political commitment was necessary for sustaining the momentum of the economic reform process, with demonstrated capacity to develop and defend new policy positions and reform strategies in the face of internal opposition. Considerable investment in public services and anti-poverty programmes in recent years is illustrative both of the President's personal conviction and recognition of the political benefits that can accrue from success in improving public welfare. Personal conviction on the necessity of economic reform has deepened over time as a result of the influence of the private sector and aid donors. The President claims consistency in this regard with the essence of the Ten-Point Programme, arguing that economic growth driven by private sector development is the surest route to poverty reduction and national prosperity.

President Museveni continued to derive considerable legitimacy from bringing peace to much of the country and defeating armed insurgencies, as reflected in a strong popular mandate from successive electoral contests. Popular legitimacy and military support form the bedrock for the regime, enabling the President to pursue difficult and potentially unpopular reforms. The NRM came to power through armed struggle and the President retains the loyalty of senior army officers through high defence expenditures, the acquisition of military hardware, and business opportunities resulting from engagement in the civil war in the Congo. However, patronage politics based on personal and family ties has the potential to undermine the long-term sustainability of the reforms if it remains unchecked, since favouritism towards the President's own ethnic group from southwest Uganda undermines the Movement's claim to be a broad-based organisation that is opposed to the divisive ethnic politics of the past.

The timing and sequencing of reforms had a significant bearing on Uganda's successful reform trajectory. In the late 1980s, the government had little option but to opt for a package of 'zero-generation' stabilisation and devaluation measures through the Economic Recovery Programme to ward off deepening economic crisis. This was combined with essential investments in the rehabilitation of infrastructure. Price and structural reforms followed with legalisation of the parallel foreign exchange market and the abolition of the state monopoly in coffee marketing. A series of key institutional reforms were subsequently introduced in the 1990s to improve revenue collection and the efficiency of the civil service, and in the form of financial expenditure management to improve the transparency and efficiency of the budget process and the tracking of expenditure commitments.

Development assistance has been critical to Uganda's turnaround. The government has received consistent support from aid donors, beginning with support for ideas and advice in the early stages of reform followed by a substantial and growing commitment of financial resources. Donors have employed a variety of aid instruments in their support for the government's reform programme, using technical assistance to provide advice as required by the government and capacity-building support to build up a cadre of experienced and committed technocrats. Budget support has been instrumental in providing a predictable flow of financial resources in support of government budgetary commitments within the framework of the PEAP. Conditionality has been employed sparingly, usually as part of World Bank and IMF structural adjustment credits, and often with the active support of reformers who could use conditionality to convince detractors of the need for reform in the late 1980s, and to maintain political commitment to ensure continued progress (Hölmgren *et al.* 2001: 141). The aggregate impact of aid on economic growth and poverty reduction has been significant. According to estimates furnished by Reinikka and Collier (2001: 43), aid contributed 31 per cent of the 5.5 per cent average growth rate and 29 per cent of the decline in poverty levels in the period 1992–7.

A further ingredient in the government's approach was a conscious strategy of compensating the losers of reform, especially those who posed a potential source of opposition to the reforms such as government servants retrenched in the civil service reform programme and demobilised soldiers. Active compensation through voluntary severance packages and demobilisation allowances served to moderate potential opposition to reform. While it could be argued that compensating the potential opponents to reform was not critical to successful implementation as their political influence was relatively marginal, the government took considerable care in formulating its proposals and fostering internal support for these prior to implementation. The financial cost to the government was modest on account of donor support for these measures.

In contrast, the government has been less successful in mobilising the potential beneficiaries of reform or in compensating those who have not benefited from the reforms, principally subsistence farmers and the consumers of public health and education services who form the majority of the poor in Uganda. Farmers are not adept at mobilising over reforms and have had only limited engagement in policies which seek to produce a favourable supply-side response, in the form of liberalisation of coffee marketing and the programme for the modernisation of agriculture. However, the failure to mobilise farming interests may not be significant in political terms as 'The liberalization and reorganization of agricultural marketing are now beyond political debate as they brought widespread benefits' (Dijkstra and Van Donge 2001: 858). Users of government health and education services are not experienced in lobbying government for improved services or in pursuing complaints, partly on account of democratic deficiencies in the Movement system of government and weaknesses in the accountability of elected representatives to their constituencies and the lack of consistency and efficacy of NGO advocacy efforts but also because of the difficulty of making demands on the political system.

The real losers of the reform process in economic terms are not so much demobilised soldiers and low-grade civil servants who posed a potential source of political opposition but people living in parts of the country where the government has failed to achieve a durable cessation of conflict. Large parts of northern Uganda remain unstable and people in the region are subject to periodic and brutal acts of violence. The conflict absorbs large amounts of government resources in the form of military expenditures but has also excluded large numbers of people from the fruits of development enjoyed elsewhere in the country. The persistence of violent conflict in the north has increased defence spending as the government seeks to tackle the long-standing insurgency in the region through the superior deployment of military force which threatens to upset fiscal discipline. The failure to achieve durable peace through a political settlement in northern Uganda retards economic progress, human development and poverty reduction, and places limitations on the sustainability of the country's turnaround.

Despite Uganda's evident success in promoting economic growth and reducing poverty, significant challenges remain. Reductions in poverty levels have levelled off since 2002, ostensibly on account of adverse weather conditions and a reduced rate of economic growth. Remote rural districts have not benefited to the same extent from the growth that has brought an improvement in living standards in the country's heartland, while two-thirds of subsistence farmers remain in poverty. Several key social indicators remain below the average for sub-Saharan Africa, while social indicators and poverty levels in much of northern Uganda are much worse than in the central region. Despite success in debt reduction through the HIPC initiative, Uganda remains highly dependent on aid flows to sustain the government budget (currently 52 per cent of the total).

The sustainability of the reform process is also vulnerable to political developments that relate to the character of the Movement regime and efforts to maintain its support base in the face of the transition to a multi-party system. Evidence points to a slowing of public sector management reforms, with the momentum of civil service reform visibly flagging in the face of increased budgetary outlays for the public administration sector and growing problems of corruption in revenue administration and service delivery (Robinson 2004b). The failure to achieve a durable political settlement in the north and to address pressing governance issues such as corruption and the high defence budget may lead to a reconsideration of priorities on the part of aid donors and growing resort to conditionality or reduced levels of assistance, which in turn could threaten Uganda's considerable achievements to date.

Notes

1. For a detailed account of the Uganda Revenue Authority and the Civil Service Reform Programme, see Robinson (2004b).
2. The World Bank's Country Assistance Strategy reported a 20 per cent decline in the headcount index of poverty from 1992 to 1997, though more recent household survey figures point to a slower rate of decline (World Bank 2000: 1).

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