The IMF-World Bank's economic stabilisation and structural adjustment policies and the Uganda economy, 1981-1989

Nabudere, D.W.

Dani Wadada Nabudere

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THE IMF-WORLD BANK'S ECONOMIC STABILISATION AND STRUCTURAL ADJUSTMENT POLICIES AND THE UGANDA ECONOMY, 1981-1989

By
Dani Wadada Nabudere

Afrika-Studiecentrum Leiden
1990

Note on author.

Dr. Dani W. Nabudere is presently living in exile in Denmark. He was a practising lawyer in Uganda until the Amin coup of 1971 whereupon he went to Tanzania in exile. He was Associate Professor in the Faculty of Law at the University of Dar es Salaam (1973-79) and was for one year Minister of Culture, Rehabilitation and Community Development after the fall of the Amin regime. He was also visiting Associate Professor at the University of Zimbabwe (1985).

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PREFACE

The research on this topic started in January, 1986 with the assistance offered by the African Studies Center, Leiden which enabled me to stay for a period of one month at the Center to collect the materials and initiate the research. My thanks therefore go to the Center's General Secretary, Drs. G.W. Grootenhuis and the staff of the Center. Without this assistance this effort may have taken years to accomplish.

The original idea was to concentrate my efforts on the IMF-World Bank Economic Stabilisation and Structural Adjustment programmes for the years 1981-86. This I did, but in July, 1985 and January, 1986 political changes took place in Uganda which had the effect of worsening the economic situtation in the country which, as the analysis here shows, had already began to take a turn for the worse by the end of 1984 due mainly to these programmes of the two multilateral institutions. As a result, new programmes were embarked on by the new Uganda government with the same two institutions. It therefore became necessary to look at these new programmes to complete the picture to 1987-88. This resulted in some delay in completing the work.

This monograph is a shorter version of the complete manuscript which is being considered for publication under the title: *The IFM-World Bank syndicate and the Uganda economy: 1979-1988*. This shortened version however traces all the main developments in the IMF-World Bank policies in Uganda in the period under review. The main center of the material concerns the three IMF Stand-by arrangements with Uganda for 1981-84 and the World Bank Groups structural adjustment programmes. These programmes introduced two contradictory policies at the same time. The IMF stabilisation policies were aimed at reducing 'effective demand' in the economy by using the exchange rate as an instrument of retrenchment. On the other hand, the World Bank's programmes were supposed to encourage 'growth' in the economy . The result was a chaotic economic performance which, by the end of 1984, had become inoperable. In 1986, the National Resistance Movement took power through a 'bush-war'.When it assumed power it had condemned these IMF-World Bank policies. But as soon as the established economic reality asserted itself, the NRM too was forced to adopt the same, if not more hideous policies of the IMF and the World Bank which have continued to worsen the economic situation in the country.

The lesson to be drawn from this experience is clear: policies which are aimed at deflation cannot be implemented in a country which has a minimal productive base. To retrench the economy in order to strengthen the monetary base to external needs only goes to undermine any productive incentives which may have existed in the economy. Instead, parasitic elements are strengthened at the expense of the more productive forces in the economy. For these reasons contradictory adjustment policies which seek to increase the productive capacities find a barren atmosphere to operate in. Policy reform aimed at institutional changes also finds itself foundering on this rather barren terrain in which state institutions become a hindrance rather than supportive to the forces of production. This clearly comes out of the Uganda experience in these years.

This clearly poses a dilemma to the regimes in the country since their own existence becomes threatened by these economic debilitating forces. Instead of encouraging democratic institutions to become stronger, the economic conditions tend to encourage dictatorial tendencies and these in turn give fuel to centrifugal forces-including ethnic conflicts. This is what accounted for the very failure of the second Obote administration and the civil war which raged in the country in the same period leading to the regime's overthrow in July, 1985. The same factors also account for the continued conflict in the country despite the fact that the National Resistance Movement claimed to have fought a 'peoples war'.

This dilemma contains elements of a solution to the Uganda crisis. This is simple: so long as the economy of Uganda continues to respond to external pressures which are themselves parasitic, there can be no economic development in the country and hence also there can be no political stability. The answer lies in creating a new economic mechanism which takes the peoples needs as the starting point for any economic programme. Lessons on this issue can be learnt from the peoples own responses to the crisis. These indicate that where external pressures were weakened, peoples energies to strengthen their economy were strengthened. Here lies an indicator to future economic and political approaches.

Helsingør, Denmark
February, 1990

Dani Wadada Nabudere

1. INTRODUCTION

In 1981 Uganda was faced with a crisis in its economy following eight years of economic mismanagement under the military regime of Idi Amin and the war between Tanzania and Uganda which led to the overthrow of the Amin regime in 1979. The economic mismanagement of the Amin regime was preceded by a period in 1971 of relative stagnation as the earlier 'growth' in the economy following the post-war European recovery began to exhaust itself. The consequent break up of the East African Community, which itself was partly a result of this initial stagnation, went further to weaken the economy which the Amin period worsened further by repressive policies against the population-which in part resulted in the expulsion of the Asian industrial and commercial capitalists. In this period, the Amin military regime relied on Libya and Saudi Arabia to finance its programmes, although later the regime tried to win over Western monopolies through an economic 'Rehabilitation programme' in 1977. This programme failed to create any dent in the critial situation and was itself overtaken by the Tanzania-Uganda war that followed in 1978.

The interim administration of the Uganda National Liberation Front-UNLF - then commissioned a Commonwealth team of experts to look at the economy and make recommendations for a rehabilitation and recovery programme. The team of 'experts' recommended the injection of a large quantity of imported commodities - mainly essentials - which were aimed at restoring the balance between prices in the rural and urban sectors with a view to wiping out the 'informal sector' - or the *magendo* economy. This was to be followed up with large inflow of capital from the multilateral agencies and bilateral 'donor' sources in support of balance of payments and the 'Rehabilitation Programme'. However to induce these foreign donors to do this, the team recommended a devaluing of the Uganda shilling, which was also seen as helping strengthen the rural sector in order to convince it to channel the bulk of the export commodities such as coffee through official markets of the state.

The UNLF administration accepted a number of these recommendations, but rejected the demand to devalue the currency. Under these circumstances a UNLF request for an IMF-World Bank support for its short-term rehabiliatation programme was met with lukewarm approval at the Paris Club and Consultative Group. A stand-by arrangement was agreed however, but this programme was not carried out since this administration's interim period was cut short by a *coup d'etat* organised by supporters of Milton Obote and Yoweri Museveni - the present leader of Uganda. The Military Commission which then took power had a hectic six months trying to organise elections which were later rigged in favour of the Uganda Peoples Congress of Milton Obote. Their commitment to economic questions was non-existent, and the economic situation worsened in the meantime. After the election fraud, the UPC-Obote regime which was installed, was quick to ask for a new stand-by arrangement with the IMF and a structural adjustment programme with the World Bank to replace the UNLF Economic and Social Programme which had been put in place.

2. THE IMF-WORLD BANK STABILISATION AND ADJUSTMENT PROGRAMMES

After the new regime was installed in power in January 1981, it began a negotiation with the IMF and the World Bank to get new financing for its own economic programmes which it had worked out on the basis of the recommendations of the Commonwealth team - which it had accepted wholly. The IMF-World Bank had welcomed this whole acceptance of the team's recommendations and saw this as a positive step. This acceptance was contained in a policy package which was released on May 1st, 1981. Under the policy package a devaluation of the Uganda shilling was announced from Ushs.8 to the US dollar to Ushs.87 to the US dollar, among other proposals for the 'liberalisation of trade' and price deregulation except over coffee exports. Although peasant producers were given increased produce prices these in fact reflected a lowering in their standard of living. Following this announcement, the IMF released the first of its three facilities negotiated every two years. The first amounting to US $ 112.5 million to support the stabilisation measures undertaken by the government. This arrangement saw to the full implementation of the agreed measures during the years 1981/82. After these measures were implemented, a *second stand-by facility* amounting to US $ 112.5 million was negotiated and granted in August 1982. Again after that period, the IMF staff certified that Uganda had satisfied all the 'performance criteria' which had been established under the 1982/3 programme and as a result a *third financial programme* was negotiated and agreed for 1983/84. All these facilities represented 150 per cent of Uganda's quota with the IMF with the exception of the third financial programme in which the IMF staff advised the Board to allow only 126.5 per cent amounting to SDR 99.6 million despite the Uganda's fine performance.[1]

Whereas the conditions attached to the first financial programme were intended to start off the process of adjustment, the second programme had the objective of 'consolidating' the gains made in the 1981/82 programme. The conditions were also intended to further encourage 'production' and relax foreign exchange constraints. The new measures agreed to be implemented to achieve these objectives were: *first*, to make additional substantial increase in the producer prices for the major export crops; *second*, to increase the retail prices of petroleum products which had been excluded in the budget proposals of June 1981; *third*, to 'liberalise' foreign exchange transactions for the private sector by instituting a 'temporary' dual exchange

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[1] IMF: *Uganda: Stand-by Arrangement 1983-84*. EBS/82/125, Washington, 1983.

rate system. These adjustment measures, in the second-stand by facility, were supported by an IDA credit to be examined below.

The third stand-by financial programme was made conditional upon the government halving its balance of payments deficit in 1983/84 with a view to achieving a surplus in 1985/86. This was considered necessary if Uganda was to meet its rapidly increasing payments to the Fund which were estimated to average SDR 100 millon per year during the period 1984/85 through 1986/87. The first purchase (credit of SDR 31.5 million) was to be made upon the Executive Board approving the arrangement. The second purchase (SDR 12.5 million) was to be made upon Uganda fulfilling the 'performance criteria' for the end of September 1983.

The third purchase (SDR 21 million) was to be made upon the completion by the IMF staff of a mid-term review of the arrangement and the satisfaction of the December 1983 performance criteria. The fourth purchase (SDR 15 million) was to be made upon the fulfilment of the March 1984 performance criteria; and finally the fifth purchase (SDR 15 million) was subjected to the completion of the second review on exchange rate policies with the Fund.

These tight conditions were made more elaborate in the stand-by arrangement itself, which were commitments made by the Ugandan government to the Fund in relation to the loan. These stipulated that the purchases under the arrangement shall not, without the prior consent of the Fund, exceed the equivalent of SDR 31.5 million until Nov. 15, 1983; SDR 44 million until Feb. 1984; SDR 65 milion until May 15, 1984; and SDR 80 million until July 1984. It was also stipulated that these purchases 'shall be made from borrowed resources only'. A restriction was further imposed to the effect that Uganda would not be allowed to purchase these amounts, other than the initial SDR 31.5 million, that would have the effect of increasing the Fund's holdings of Uganda currency unless a number of undertakings by Uganda were carried out.

These undertakings were a further concretisation of the Fund's financial disciplinary measures which had been undertaken in the first two stand-by arrangements. The first was that Uganda would observe the limits imposed on the total net domestic credit which was not to exceed shs. 70 billion by September 1983 and shs. 76.8 bilion by December 31,1983. The indicative ceilings for March 31,1984 were shs. 81.1 bilion and shs. 84.1 billion for June 30, 1984. The second stipulation was that Uganda would observe net credit to the government which was not to exceed shs. 41.1 billion by September 30, 1983 and shs. 41.6 bilion by December 31, 1983. The indicative ceiling for March 31, 1984 was set at shs. 42.1 bilion and that for June 30th, 1984 fixed at shs. 42.6 billion. The ceilings for September and December were either to be reduced or increased by the excess or shortfall of the cumulative profits from the operations of the second window from July, 1983 above or below the projected shs. 3.6 billion and shs. 5.3 billion respectively.

The next set of understandings were to do with foreign exchange and external funding connected with the new programme. It was stipulated first, that from July 1, 1983 through

December 31, 1983 the contracting of new public or public guaranteed external debt would not exceed US $ 30 million for maturities of 0-12 years and that these would take the form of cash loans contracted by the Bank of Uganda. At least a third had to be repaid before the end of 1983 and the balance before the end of June 1984. No other loan of less than 12 year maturity was to be contracted until September 30, 1983. However, from October 1, 1983 through December, government was allowed to contract additional new public or public guaranteed external debt up to US $ 20 million. These limits were however not to apply to concessional loans, loans contracted to refinance existing debts, capital contributions to international financial institutions as well as to normal trade credit of less than one year. Quantitative ceilings were to be made on a cumulative basis for the first half of 1984 and the situation was to be reviewed with the Fund staff in October-November 1983 at the mid-term review. These measures, it can be seen, were intended to further control the creation of internal credit and were clearly deflationary against growth.

Furthermore, it was stipulated that between July 1 and December 31, 1983 external arrears were to be reduced through cash payments by at least US $ 10 milion and, as an indicative target, the level of net external arrears was to be reduced by no less than US $ 20 million through cash payments by June, 1984. In conformity with the same 'liberalising' drive by the IMF, it was further stipulated that during the entire programme period, no new restrictions were to be imposed on payments and transfers on current international transactions (i.e. other than those on capital investments). Uganda also undertook to review these arrangements to ensure that performance criteria were being carried out on the two occasions indicated above. Here it can be seen that while the Fund was trying to control and limit the amounts of domestic credit, it was trying its best at the same time to 'liberalise' conditions on repayments of loans and interest on them, as well as payments for commercial transactions and charges and fees for 'services' to 'donors'. Restrictions were imposed on public or public guaranteed loans. This meant loans going to the parastatals guaranteed by the state. While this was the case, no limit was placed on 'concessional' aid which were loans made to the state on a bilateral basis by donors mainly, from the OECD countries. These measures were in effect deeply deflationary aimed at throttling the parastatal bodies reactivating of production, while the control in the domestic credit also affected the private sector.

In order to further streamline the policy, it was stipulated that if Uganda failed to modify its dual exchange market arrangement in accordance with the understanding reached with the Fund, then the purchases from the Fund will only resume after 'consultations' had taken place again between the Fund and the government of Uganda to reach 'new understandings'. The understanding with regard to the modification of the dual exchange market arrangement was that in order to promote greater 'efficiency' in resource allocation, the government would operate the existing dual exchange system in such a way that the two window rates will be 'unified' at an equilibrium exchange rate within a 'reasonable period of time'. As a 'first step' in this direction, it was agreed that before the start of the 1983/84 fiscal year, all exports *other than coffee and cotton*, all non-oil imports, and any servicing of newly contracted public and public-quaranteed foreign debt, were to be transferred from the first window to the second window. In addition, the rate at the first window was to be 'systematically depreciated to progressively narrow the gap' between the two windows. The second window sales were to continue on an auction basis and the allocations to this window were to be increased from US $ 2 million to US $ 3 million in 1982/83. These policies were to be supported by a 'selective application' of existing exchange control regulations, tight domestic credit policies, and selective upward adjustments in domestic interest rates.

In order to contain the upward pressures on domestic prices, which these measures were inevitably adding to, and also on the second window operations, the IMF conditionality spelt out further measures. *Firstly*, the use of import licence without foreign exchange allocation was abolished by June 1983 except for goods brought in by importers with external authorised accounts, gifts, donations, personal effects, capital contributions in kind, imports under contracts with part or whole payments in foreign exchange, and imports under aid-financed projects requiring no foreign exchange. Private enterprises were also allowed to import capital goods on a consignment basis by overseas borrowing. *Secondly*, the new regulations introduced in June provided for steps to be taken with the commercial banks to ensure that the goods for which foreign exchange had been granted were actually delivered. This was to be done with the collaboration of the Bank of Uganda. If the goods did not arrive the Bank of Uganda was authorised to impose sanctions under the terms of the Exchange Control Act. The period of delivery was reduced from six to four months.

Thirdly, travel allowances for business purposes (both import and export), on the basis of a daily allowance of US $ 150 per person, were to be granted up to a maximum of $ 2,000 in a given year instead of the then maximum of $ 4,000. Allowances for other purposes were reduced from $ 4,000 to $ 500 per person per year. The allowances were to be granted only to holders of air tickets and valid passports which were to be recorded therein. The practice of commercial banks giving foreign exchange without going through the bidding process was abolished. Furthermore, 'invisibles' and outward unrequited and capital transfers from the non-bank sector (with the exception of education, medical treatment, advertising, emigration, remittances of expatriates, profits, dividends, and debt servicing) had the maximum of foreign exchange that could be granted reduced from $ 2,000 to $ 500 per person per year, subject to proper documentation and approval by the Exchange Control Department.

Fourthly, all private importers who had bid for foreign exchange at the second window were required to submit with their bids a cheque, payable by the bidder or by a commercial bank to the Bank of Uganda, for the local currency equivalent to the amout of the foreign exchange requested under their bids. In the case of ministries their quarterly access to the second window sales was to be limited to 30 per cent of the total of such sales. They were not to enter the bids. Moreover, their applications had to be backed by documents showing the approval of the Central Tender Board, the original budget authorisation, and by the signature of the secretary to the Treasury or an officer designated by him. Steps were also to be taken to step-up customs surveillance at border posts and Entebbe airport.

The availability of the stand-by funds was also to be suspended if Uganda either imposed or intensified restrictions on payments and transfers on current international transactions; introduced or modified the multiple currency practices other than the modificication already referred to; concluded bilateral payment agreements which were consistent with article VIII of the articles of agreement of the Fund; and/or imposed or intensified import restrictions for balance of payments reasons.

Other measures which were dictated by the IMF included the freeing of private estate exports on world markets and the removal of controls on user costs on parastatal bodies. In this the IMF was trying its best to free private capitalist exports while still maintaining a hold on peasant grown crops which continued to be marketed and their earnings subjected to heavy state taxation. The World Bank structural adjustment programmes - to be examined below - also stipulated that the government would try to strengthen the private sector, but its controls over peasant producers was approved.

3. THE WORLD BANK STRUCTURAL ADJUSTMENT PROGRAMMES

(a). The First Reconstruction Credit Programme.

The World Bank Group, after a period of cool relations with the unstable military regime of Idi Amin, resumed its operations in Uganda in early 1981. It appointed a resident representative in September 1982 and from then onwards, it began to expand its programmes and projects, acting as an on-the-spot-executor of the adjustment process. From 1981 its financial commitments to Uganda as a group, including IDA and IFC, rose from US $ 109 million in that year to US $ 124 million in 1982, consisting mainly of credits in agriculture (US $ 70 million), education (US $ 32 million), and telecommunications (US $ 22 million). Of the total amount committed, about US $ 85 million were already disbursed by 1982. Two IDA Reconstruction Credits were agreed between 1980 and 1982. A third was negotiated in 1983 after a series of studies which became operational in fiscal year 1984/85. In addition, it organised consultative meetings to raise more funds for Uganda from international financiers and bilateral 'donors'.

Following the 'bold' June 1981 policy reform measures, the World Bank Group sent a mission to Uganda in August 1981 and, in collaboration with the IMF, the UNDP, the

Commonwealth Fund for Technical Cooperation, and other financial institutions and countries it agreed to provide technical aid to assist in 'development policy and planning'. The Bank, together with the UNDP, financed a Planning Assistance Project, which it administered. This project began to develop a programme of economic and sectoral work which emphasized policy and planning questions. It also prepared an *Agricultural Rehabilitation Programme* in collaboration with other financiers which focussed on the policy and institutional framework for the major export crops as well as on sectoral financing requirements. An *Industrial Rehabilitation Project* was also worked on involving US $ 35 million. Other studies were undertaken for roads, railways, and telecommunications. These gave the World Bank Group an opportunity to recommend and help implement structural adjustment policies in the country which were aimed at the reform of institutions and administrative mechanisms to advance the stabilisation policies of the IMF.

Before the UPC-government took power, the *First Reconstruction Credit Programme* had been agreed between the IDA and the UNLF government in February 1980. Due to the changes that took place in May of that year, disbursements of this credit were slowed down and only US $ 25 million was disbursed during the entire 1980, out of the total amount of $ 100 million. Even then, only about $ 2.5 million had actually been utilised by March 1981. Although up to that point the main agreements reached between the Uganda government under the UNLF administration and IDA had not involved any conditionality connected to policy reform, after March 1981, the *credit line under this reconstruction programme*,. supported by World Bank-IDA, was *tranched*, that is to say, it was 'sliced' and made *conditional upon certain policy reforms being undertaken*. The second tranche now required the implementation of the June 1981 policy adjustments and it was to be disbursed only on the satisfactory progress of these reforms.

In June, after the government adopted the policy package, the World Bank Group made the balance of the credit tranche available. After that date disbursements moved very fast and by the end of April, 1982, US $ 37 million had been disbursed and letters of credit for another $ 47 million had been opened for the supply of goods. Of the $ 11 million remaining after exchange rate adjustments, allotment was made on the basis of specific requirements and some of these were re-imbursements for items imported before June 1981. The remainder had been allocated to the end users by an interministerial committee following certain criteria such as the beneficiaries' foreign exchange earnings or savings potential, the allocations contribution to GDP, and its impact on governmental revenue. Most of the credit went to industries and ministries.

The relative slow disbursement for certain projects was blamed on three reasons: *First*, the slow establishment of the credit allocation procedures; *second*, the government officials were not familiar with the international tendering procedures generally and the Bank Group's own procurement procedures; *third*, the effects of the June devaluation, which necessitated the renegotiation of many tenders and consequently difficulties which resulted from the need by competitors to raise a much larger amount of local currency to cover the foreign exchange contribution under the credit. Also a number of enterprises including parastatals, which had been allocated credit, were found to be insolvent after the devaluation making it impossible to fund their counterpart requirements locally. These anomalies were addressed in the new and stricter criteria for the second reconstruction credit.

(b) The Second Reconstruction Credit Programme

The negotiation for a new credit line attached to a programme of activities and projects was undertaken in line with the reforms so far carried out. It responded to certain 'needs' which it identified as: (I) the financing of current imports to help revive the economy, (II) provide technical assistance to strengthen key institutions, (III) to prepare detailed rehabilitation programmes for the key sectors, and (IV) mobilise and co-ordinate aid. A number of other operations and activities were also envisaged. The main objectives of the credit were *first*, to increase agricultural exports and domestic production in the 'high priority areas'; and, *second*, to strengthen the governments capacity to formulate and implement policies and programmes in the critical areas of recovery such as the pricing and marketing of export crops, the administration, planning, and foreign exchange allocation, and the organisation of the parastatals, as well as the external debt management.

A memorandum of understanding was signed and sealed, which contained the essence of the conditions.[2] Among the main actions required to be taken under the memorandum was the need for government to adopt stringent criteria for the allocation of foreign exchange, a detailed commitment of which was made. Government also undertook to prepare a programme for the monitoring of its external arrangements including debt verification and the external debt management generally. Among the administrative restructuring, the government undertook to strengthen tax administration 'with assistance from the Commonwealth Secretariat' and prepare a programme for the strengthening of the Ministry of Finance. The government also undertook to study ways of improving the organisation and regulation of export crop marketing as well as examining, with the Bank Group's assistance, proposals for improving the sectoral planning and co-ordination of the economy. The government was also required by action of the Ministry of Planning and Economic Development to use the Recovery Programme, which the ministry had drawn up with the Bank Group assistance, for the 1982/83 budget preparation and for the ministry to monitor the programme every six months starting December 1982. In addition, the government was to establish a unit to analyse domestic and international costs, prices, and

[2]IDA: *Uganda: The Second Reconstruction Credit Programme, Washington, 1983.*

supply trends and to make recommendations on agricultural prices. The government was expected to consult the Bank Group by September, 1982 on implementation and this was made a condition for the release of the second tranche of US $ 30 million.

These stipulations were clearly aimed at *policy and institutional reforms* which was basic to the rehabilitation and 'development' of the Uganda economy as envisaged by the IMF and the World Bank Group. The financing of particular procurement requirements was tied to the implementation of the programmes of adjustment to whose commitment the government was required and made conditional to any disbursements. In this way, the 'stabilisation' policies of the IMF were being strengthed and consolidated with the World Bank's institutional reforms and the economy was being made to respond to external stimuli in accordance with needs of international finance capital. The reconstruction credit was therefore to be tied to those activities that were expected to produce this result.

The credit financed the importation of agricultural inputs to help revive the export crops; the importation of spare parts and raw materials for selected industries; as well as the importation of transport equipment largely for non-capital needs of 'high economic priority' during 1982/83. This covered about 12% of the total imports needed and about 40% of the financing gap in that year, leaving the rest to be covered by debt rescheduling and additional balance of payments support from other sources not tapped at the Paris Club.

Two other main IDA programmes which were touched on only in passing ought to be mentioned here again as they formed part of the reforms, and as more will be heard about them later. The first is the *Development Credit Agreement* which was signed on June 29, 1982 and which was connected with the *Industrial Rehabilitation Project-Credit* 1248-UG mentioned earlier. The main purpose of the former was to rehabilitate existing productive enterprises and, together with the latter, to strengthen the Uganda Development Bank's and the Uganda Commercial Bank's capital. This was intended to enable them to become more effective in undertaking their intermediation role in the financial system in order to assist industrial development. The second was the *Agricultural Rehabilitation Programme* under which IDA provided credit for agricultural rehabilitation, but mainly to strengthen the institutional aspect. Under it, a one-year study of agricultural costs of production, processing, and marketing of major cash crops was undertaken in November 1983 and completed in April, 1984 to enable the World Bank to better determine the input-output coefficients of these crops in order to fix the price of peasant-worker labour more correctly. There was also a specific *Tea Rehabilitation Project* to strengthen the accounting capabilities of the tea parastatals and their management.

4. IMPLEMENTATION OF THE PROGRAMMES AND THEIR EFFECT ON DEVELOPMENT

The implementation of these programmes soon revealed their true aim: to exploit the Uganda peasant and worker. The results of these effects are connected with the policy reforms which had been dictated by the IMF and the World Bank themselves. The central and key element in these reforms was the exchange rate, and the inter-related financial reforms involving the tax system and pricing policy. It is therefore necessary that we try to look into the issue of the exchange rate at this stage and see how this in particular affected the peasant producers.

(a) Exhange Rate Policy

We had pointed out that the 'catalytic element' in the reforms that had occurred in the economy in the view of the IMF was the adjustment of the exchange rate and the freeing of most domestic prices. As we know, the 'float' of the shilling had resulted in a depriciation of the currency ten times. The World Bank had argued at the time that such a devaluation would reduce the government deficit and hence the need for it to borrow from the central bank, apart from reducing inflation. Such a step was also seen by the Bank as giving the government the opportunity to 'mop up' the excessive *magendo* profits which existed in private hands leading to a ten-fold increase in government revenue during 1981/82. Receipts from external grants were expected to rise twenty-fold, equivalent to a trebling in US dollars at the new exchange rate.[3]

But in the event, payments of external arrears turned out to have been 'greater than expected' and foreign exchange remained in short supply. The result was that the government was forced to allocate the available foreign exchange by a special committee and it was considered by the IMF that the needs of the private sector were not adequately satisfied in 1981/82. In order to 'solve' this problem, the IMF had 'agreed' as part of the financial measures of the second stand-by arrangement to institute a dual exchange system at the end of August, 1982 with two window currency exchange system. While the first window was supposed to reflect the 'official' exchange rate for 'essentials', the exchange rate at the second window was determined by auction at the rate reflecting 'supply and demand'.

But since the 'supply' of the second window foreign exchange was not determined by 'free market forces' or by any 'law' of supply and demand but rather by the official release of US $ 2 million a week (later $ 3 million), the demand in the circumstances was bound to be 'excessive' with the result that the bidding for the supply became quite intense leading to further depreciations of the currency at this window. As the window became a lucrative source of

[3]IBRD: *Uganda: Country Economic Memorandum, Washington, 1982, p. 25/6.*

revenue for the government, the 'supply' of the foreign exchange to this window was increased and more commodities from the 'essential'list were transferred to the 'non-essential' window 2. For this reasons it is clear that the need to devalue labour power and, at the same time, the need to increase state revenue to carry out the reform were forcing further depreciations of the currency.

The 'unifying' of the two windows on June 22, 1984 was only achieved at a rate of Ushs. 318 to the US $ which was an even higher devaluation of the first window exchange rate. The merger was originally expected to have been fixed at Ushs. 250 to the US $. In short, what had happened under the 'float' and two-window policy, was the creation of a mechanism for the *Kibanda* rate to become the official rate. As a result of the merger, between July and December 1984 the shilling had depreciated by another 70% which was blamed on 'excessive liquidity' - a malady that was supposed to have been 'cured' by the 'mopping up operation' of the float! So it was back to 'square one'! In fact the rise in the exchange of 70% was a currency adjustment to *catch up* (!) with the *Kibanda* rate which had existed as a third window and which had kept on rising in response to window 1 and 2. Table 1 below goes to illustrate this process which had been undercurrent.

TABLE 1

EXCHANGE RATE COMPARISONS (in USh. per US $)

At the end of	Official rates Window one	window two	Unofficial rates (Kibanda)	PPP rates a/
June 1980	7.3	-	80.0	82.1
June 1981	77.8	-	200.0	159.3
June 1982	96.7	-	300.0	229.2
June 1983 b/	150.0	280.0	350.0	278.6
Nov. 1983 c/	210.0	330.0	400.0	-
June 1984 d/	315.0	.		

a/ Annual averages, assuming exchange rate was adjusted to offset inflation differentials between Uganda and OECD countries since 1973.
b/ At July 1 for official rates.
c/ At November 21 for official rates.
d/ Autor's additions.
Sources:: (1) IMF, *International Financial Statistics*.
(2) Mission estimates, and author
(3) Autor's additions

With this increasing depreciation of the Uganda shilling, production inputs came to be imported into the country at the excessive window 2 rate. This had raised the values of imported goods and their prices in terms of Uganda shillings, and since the government had also decided to increase the customs duties payable on such goods through a system of *ad valerom* tax, the revenues of the government kept on pouring in as prices to the producing consumers in agriculture and industry kept on rising up. This was also *the real* problem that reduced the price of the labour power of the peasants producing for the export market; and the workers who laboured on estates and in the industries. This is what adversely affected the economic performance of the two sectors of the economy.

(b) Producer Prices

The declared significance of the new exchange system was that it had done away with the underpaying of the peasants for their export crops. It had been argued that under the old system those who were favoured by the state to purchase foreign exchange in actual fact received a premium voucher from the state which they could use to procure foreign goods and sell them at *magendo* prices. This had denied the actual producers the benefits of the foreign exchange earned by them to purchase inputs for the farms as well as to maintain industry and produce 'wage goods' which the direct producers could exchange for their primary goods at 'reasonable prices'.

These arguments turned out to be one-sidedly 'correct' at least inasmuch as the private *mafutamingi* were concerned. In the new situation, the *state itself* became the *mafutamingi* and speculator and so the issue remained basically the same. The only difference was that the preasant was deceived in believing that he was being paid a higher producer price, and hence his initial positive reaction when he brought the stored up coffee and cotton to sell through the official channels. But very soon he discovered the trick that his wages were not increasing in *real terms*. At this point his reaction began to stall and as he became convinced of the tricks, he began to revert to the production of food crops for sale on the domestic and neighbouring markets where he had relative advantage. The fact is that the producer prices for the major export crops kept on rising along with major depreciation in the currency. The peasant producer prices no where, except for the sole year 1980, ever caught up with the exchange rates. As their producer prices were increased, the exchange rate was depreciated, and here we are concerned only with the relationship between the new producer prices and the exchange rate at window one at which the peasant's main export crops were valued as we have already noted. In 1980 when the exchange rate was shs. 7.6 (during UNLF government) the producer price was fixed at shs. 7.0 per kilogramme. From then onwards, the gap between the two began to widen. In 1984 the figures show that when the exchange rate was shs. 293 in June-July at the 'unified' window, the coffee price was fixed at shs. 130.0 per kilo; and when it increased to shs. 295

and shs. 326 in December, the producer price was raised to shs. 210.00 per kilogramme. This is the picture at this level, which illustrates the unwinnable battle that the peasant producer was expected to 'win'.

When it comes to comparing the actual amounts paid to the producers with the amounts earned by the government after export, we see that the government continually took a larger share of the export crop earnings on the world market. Here we see as in Table II below that even during 1980 the peasant producer of robusta took only *one-third* of the total price, the remainder going to the state in form of export taxes, marketing costs, transport, freight, insurance and levies to the unions and co-operative societies. In 1982 he received only *one-fourth*; in 1983 only *one-eighth*; and almost the same for May 1984 and July 1984! In the World Bank's admission hidden away in 'official' reports out of public reach:

> 'These increases (i.e. of producer prices) have been less than the rate of devaluation of the Uganda shilling. The increases have also been less than would have been warranted by the combined effects of the increase in export prices of the principal commodities, coffee, cotton, tea and tobacco.'4

TABLE II

PRODUCER AND EXPORT PRICE CHANGES FOR TRADITIONAL AGRICULTURAL EXPORTS IN UGANDA

	1980	1981	1982	1983	May 1984	July 1984
Producer Prices (USh/kg)						
Coffee (Robusta)	7.0	35.0	50.0	80.0	100.0	130.0
Cotton (safi)	6.0	30.0	40.0	60.0	90.0	120.0
Tea (green leaf)	2.6	6.0	10.0	25.0	40.0	45.0
Tobacco (flue-cured)	14.0	79.3	100.0	150.0	200.0	220.0
FOB Export Prices (USh/kg)						
Coffee (Robusta)	22.9	95.4	189.0	600.0	720.0	720.0
Cotton (safi)	13.3	95.4	170.1	425.0	570.0	570.0
Tea	4.4	30.1	66.2	225.0	420.0	420.0
Tobacco (flue-cured)	17.0	118.0	227.7	325.0	720.0	720.0

Source: MAF and Mission Estimates

[4] IBRD: *Uganda: Agricultural Sector Memorandum: The Challenge Beyond Rehabilitation*, Washington, June 30, 1984, p. 31.

In Table III (below), the World Bank makes estimates of the ratio of producer prices to export prices of the main crops. From this it makes another observation which is not reflected in its public announcements about the economic performance in Uganda. It states: '

> 'The table indicates that farmers are now receiving a lower proportion of the export value of all the four traditional export crops than they did in 1980.'5

This is again an understatement because the Bank continues to point out that the 'agricultural exporters' terms of trade 'improved significantly over 1980-84 period.'These 'better terms' of trade did not in fact go to the actual producers but to the intermediary exporters, mainly the state. The Bank notes that processing and marketing costs had shown an increasing rather than a decreasing tendency between 1980 and 1983, although the volumes handled increased which should have reduced the unit cost. These figures in fact go to show that for both arabica and robusta coffee producers in 1981, 1983, and 1984 they received, on the average as a group, only 24% of the total proceeds with 76% going to the state and other state agencies and co-operatives. The table also shows that although the cotton producer received twice what the coffee grower received, on the average, he too was not convinced of the benefits of the 'higher' producer prices. The figures prove beyond doubt that the peasant producers were quite acute in their sense of cost calculation, and their refusal to increase acreages turns out to be a rational economic reaction.

TABLE III

RATIO OF PRODUCER TO EXPORT PRICES FOR PRINCIPAL CROPS

	1980	1981	1982	1983	May 1984
Coffee	0.57	0.26	0.48	0.22	0.24
Cotton	1.31	0.32	0.64	0.38	0.48
Tea	2.17	0.37	0.55	0.28	0.48
Tobacco	0.72	0.29	0.52	0.20	0.23

Source Mission estimates.

[5] Ibid: p. 33 (Emphasis Added)

The above picture does not explain the entire magnitude of the exploitation of the peasant producers. The further point hidden from the above statistics is the glaring fact that *in addition* to the gap between the exchange rate at window 1 and the nominal increase in the producer prices, and in addition to the gap between the producer prices and the total export prices, the state was able *to speculate* and make more currency *profits* on the total proceeds of the export crops *before* paying the producers their share. This arose from the fact that the share between the producer price and the export price was determined at the window 1 exhange rate. But in fact the government sold the foreign exchange obtained from the export earnings at the exchange rate of window 2 to those industries, individuals, or enterprises which wanted to import 'non-essentials'

In this way the state had all the time made windfall profits on the peasant's foreign exchange earnings *before* they were paid for their crop and these windfalls went to the state budget with the result that the peasant producers all the time contributed a much larger-amount of money to the revenue of the state *beyond* the reported export taxes. In this way, the government had increased the share of the export tax from 0.1% in 1980/81 as a per centage of the GDP by 47 times for the year 1982/83, being 22.7% of the total government revenue for that year compared to 3.7% in 1980/81.[6] Such huge foreign exchange profits, taken by the state for non-productive purposes, could not have given incentive to the producers, nor to other sectors of the economy.

(c) Mechanisms of Extraction of Surplus Value

These manipulations of the exchange rates and fixation of producer prices, one after the other, were intended to extract the maximum surplus value from the peasant producers so that they were paid the bare subsistance *wage* which was proclaimed to be a *price* for their crops. In fact the price was a *price for labour power* which was in reality a wage. How was this achieved? As a capital-labour *production relation*, the mechanism of exploitation was the same as that applicable to other forms of labour, namely through the payment of regular wages. But here since the peasant seemed to 'own' both the land and the instruments of his labour, the relation was a bit complex. The real aim of the devaluation was, as we have seen, to *devalue the price of labour*. The devaluation of this labour came out clearly in the mechanisms of fixing the price of coffee.

With the devaluation, efforts were made regularly to bring down further the price of export crop labour, as we have already seen. It should be noted that producer prices for all other agricultural products were fixed by the domestic and international markets directly. The exception were the five main 'traditional' export crops-coffee, cotton, tea, tobacco, and cocoa.

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6 Mulema, P.: *Uganda's Economic Performance*, Kampala, 1983, p. 18-9.

According to the 'official Use Only' copy of the World Bank's: *Agricultural Sector Memorandum* of July 30, 1984 - Report No. 5044-UG, to which we referred earlier, the producer prices for these five export crops were fixed by the government 'with the involvement of the IMF and the World Bank'.[7]

In so doing the following procedures were used: *first,* at the beginning of each calendar year, the Ministry of Agriculture and Forestry (MAF), Planning Division and the Agricultural Secretariat prepared hectare budgets for each year. In this task, the World Bank 'assisted' the MAF with estimates of hectare budgets.This was done in order to determine whether the net return to the peasant, *based on the projected mid-year input prices and wages,* would be adequate. It should be pointed out here that in its own calculations the World Bank took the cost of labour in the countryside to be zero. Hence the real issue was to estimate the cost of capital 'inputs' to be applied to him and a wage, based on his barest 'need' in terms of consumer goods-and other inputs.

The *second* step in the fixing of the price was to compare *border prices* of neighbouring countries for *price-controlled crops,* and these estimates were based on the figures supplied by the World Bank and the Food and Agricultural Organisation of the United Nations (FAO). They were adjusted for quality. Uganda coffee was discounted by 10 per cent because it was considered to be low in quality compared to the neighbours! *Thirdly,* the average costs of processing and marketing of the crops were then estimated *for the previous year* using accounting data collected from the cooperatives and marketing parastatals, and this involved the Ministry of Cooperative Marketing (MCM) and the MAF. These cost estimates were adjusted for inflation using expected mid-year prices or manufacturing price index. The Bank regarded the basis of these estimates as being weak because of lack of reliable estimates by the cooperatives and parastatals.

Fourthly, the Agricultural Secretariat then prepared the final recommendations for prices to be paid to the farmers and to the processing and marketing boards and submitted these to the Agricultural Policy Committee (APC) which in turn passed them on to the President's Economic Advisory Committee (PEAC) upon approval by the APC. *Fifthly,* after the review by the Cabinet Sub-Committee on Agriculture, the expected earnings from the export crops were then *apportioned between four main 'claimants'*: Government (export tax); marketing parastatals (costs); marketing Unions and cooperatives (costs and levy); and the peasant farmer (producer price) *in that order.* This final step was normally taken in May or June for the President to announce it to Parliament 'from the chair' during the budget session. After 1982 and because of the rapid currency depreciation, another mini-announcement was made in October of each year.

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[7] IBRD: *Uganda: Agricultural Sector Memorandum,* June 30, 1984.

According to the World Bank, the final step had since 1981 been taken in May 'as part of negotiations with the IMF for stand-by programs'. For that reason the calculation of the producer price with the Fund involved projections of exchange rates, public and private sector ceilings, crop finance requirements, public sector wages, and adjustments to prices of key inputs such as gasoline, diesel, electricity, water, etc. The Bank's own role was to advise the IMF as to 'minimum levels of producer prices at the farm level'. This procedure did not apply to tea produced by large estates who were authorised to market their own crop on the world market.

The World Bank notes that low producer prices to farmers have 'long been the rule in Uganda' for 'almost all the cash crops' especially in the 1970s. It observes that between November 1970 and December 1981, prices of consumer goods important to the farmers such as salt, sugar, soap, keorsene, cotton fabrics, cigarettes, meat, and bread increased 3.4 times faster than prices of agricultural products as a group. At the same time general prices as measured by the GDP deflator had increased by 65.4 times in the same period. Whereas the prices of food crops had caught up with this inflation to about 15 per cent of inflation in real terms, the producer prices on export were not nearer to that achievement. The prices of these traditional crops had always been depressed to the extent that the peasants either dropped their production or smuggled them across borders to fetch a higher price. The Bank thinks that for the first time since 1973, producer prices on coffee and other crops were 'positive' in the period under review, although the prices on cotton, tea and tobacco were still lower than those on food crops for sale. They were in fact *negative* compared to prices for maize, bananas, and groundnuts while the prices on coffee and fire-cured tobacco were lower in 1984 than they were in 1983. But we have already noted the same World Bank's view that these coffee prices were in fact also negative!

If coffee prices are now considered 'positive' in 1983 but lower in 1984, and if we have to accept the World Bank's earlier conclusion that the price increases since 1980 had been *less than the rate of devaluation* as we noted earlier, then it is clear that the prices paid in 1983 *must be less than those paid in 1978/79* with the sole exception of 1979/80 as we also noted. This explains why the peasants after they became aware of this fact began to withhold their coffee or revert to planting food crops instead. The same also happened with cotton although here their price appreared to be 'higher' which shows a very high rate of exploitation of the cash crop producing peasant.

But the World Bank's calculations of the peasants real wages also give us another insight into how the final price to the peasant is finally arrived at. Their price of labour, and hence their wages, were determined by the prices of the *wage goods* they consumed - in this case the eight commodities which the World Bank enumerated. Even after the peasants switched from the export cash crops to the marketable food crops they were, according to the Bank, able to achieve only 85 per cent of the actual costs of these bare subsistence commodities - 15 per cent below subsistence. This roughly suggests the level of the *real wage* and the rate of exploitation in 1981. In fact this was a *deterioration* in the real wages by 15 per cent for peasants who had the luck to switch to food production, so that 1984/85 represented a much lower real wage for them than 1978/79. This is what IMF reforms had achieved for the international financiers.

(d) *Agricultural Sector.*

This strangulation of the peasant direct producers was reflected in the ups and downs of the agricultural sector - particularly in the performance of the two main export cash crops coffee and cotton. The IMF records that the agricultural sector as a whole grew by 7 per cent per year during the years 1981-1983. It attributed this growth to the increased producer prices as well as to the improved availability of agricultural implements, other inputs as well as better transportation. The dual exchange rate was also accredited with this 'improved' performance. But in fact the record contradicts this picture as the two institutions admit on occasions. Let us look at the actual performance and see to what extent this claim is born out.

Coffee exports had indeed risen by 70 per cent in 1982 over 1981. The export of the crop had dropped in 1981 to 97.5 thousand tons from 135 thousand tons in 1980. It now rose from this relatively low figure to 166.6 thousand tons in 1982. This was however not due to an increase in *production*. The IMF later attributes this performance to a rise in 'yields' since the 'area under cultivation remained virtually unchanged'. The increase was in fact due to a number of factors and the most important of these was the increase *not* in the real producer prices, but in the *nominal* price increases which gave the peasant the illusion that he had obtained better terms. As we shall see again below, these nominal gains were soon wiped out by the further depreciation of Window 2 exchange rate which led to higher imported prices and these in turn led to higher domestic 'wage goods' prices. It is this development which explains why the marketable amounts began to stagnate after this rapid rise. The other reason was the wish by the peasant producers to clear the old accumulated stocks which had piled up, and with the curtailment in smuggling activities and improvement in transport as well as in the improvement in the mechanical conditions of the coffee processing factories such a performance was expected.

Because of the new constraints created in the economy as a result of the policy reforms, in IMF projected increases in coffee sales of 180,000 tons in 1983/84 - an increase of 5 per cent over 1982/83. These did not in fact matrialise. Instead, production dropped by 5.5 per cent in 1983 and again by another estimated 7.6 per cent in 1984 as is shown in table IV below. The figures given in the *Background to the Buget 1985-86* show that coffee sales actually dropped by 11.9 per cent to 138.7 thousand tonnes in 1984. The abrupt rise in *arabica* from 4.5

thousand tonnes in 1981, to 14.6 thousand tonnes in 1982 shows that the bulk of the crop had been smuggled before or merely kept at home. But this rise was sustained only the following year, for it soon dropped to 10.1 thousand tonnes in 1984 as the Table IV below shows.

The reasons for these and subsequent drops had to do with the fact that even the prices declared by the government were in fact not being paid to the growers. During 1981-82 when the Bugisu cooperative union (BCU) mobilised all available transport facilities to collect the hoarded coffee, the coffee marketing board (CMB) refused to pay the full prices for it. The BCU which collected the coffee refused to deliver to the CMB at a lower price maintaining that the CMB was responsible for the delays in purchasing and shipment which had caused the coffee to deteriorate. This bureaucratic wrangling complicated even further the difficulties of the primary societies and the peasant growers who were now forced to receive late and partial payments for their coffee. Shortages of funds caused by a deficient crop financing system further led to favouriticism in payment at the primary society level and this in turn complicated clan and lineage contradictions leading to split-up in cooperative societies so that by 1983 the number of primary cooperative societies in Bugisu doubled, creating more management and logistical problems, while at the same time increasing the total administrative and overhead costs. This in its trail added to the reduction even further of the producer prices. With this development, according to an American ethnologist, many Bagisu coffee growers decided to grow a wider range of food crops and new cash crops, ignoring the coffee trees, and in some areas even uprooting them to free land for groundnuts, maize, plantains, carrots, cabbages, tomatoes, and onions for sale in Kampala or Kenya[8]

Cotton sales increased from 4.1 thousand tons to 5.1 thousand tons and thereafter rose again to 9.8 thousand tons in 1983 and again to 12.2 thousand tons in 1984. This was still below the 1978 figure of 20.4 thousand tons and that of 86.4 thousand tons in 1970. These increases were due to the marketing of *old* stock due to the nominal price increases and the improvement in marketing channels and transport facilities. The area under cultivation in fact declined from 677.5 hectares in 1978 to 417.0 thousand hectares in 1979 and again down to 199.4 thousand hectares in 1984 as Table IV below clearly shows. This decline in the cultivated area took place although the producer price fixed for this crop was ***higher*** than it was in the neighbouring countries. This shows that the peasant producer had correctly calculated his gains-losses in terms of man-hours. The peasant had also taken into account the ecological impact cotton had on the soil, preferring instead to continue with the production of food products for sale.[9]

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[8] Bunker, S.: "Agricultural and Policy Change in the Uganda Economic Crisis" in *The American Ethnologist*, Volume II, No. 3, August, 1984.
[9] Ibid: p. 10.

This was a clear rebuff to the pressures by the regime on the recomendations of a British consultancy firm to try to get the peasants to grow more cotton. The Consultancy which was financed by the World Bank, advised the increased cotton production on the ground that Uganda had favourable climatic conditions and 'relatively lower costs of production than the neighbouring countries'. The feasibility study also looked upon cotton as the 'best potential for increasing export earnings' since local consumption only amounted to 6,500 tons per year. The government tried to encourage this development by recommending the use of more chemicals which 'several private foreign firms' had already started experimenting with producing 'more affordable chemical to be sold to the farmers'.[10]

The IMF gives wrong figures to show that the acreage under cultivation had *increased* by 108,000 hectares to 468,000 hectares in 1982/83.[11] In fact as the figures below in Table IV from the government *Background to the Budget* show, the acreage had increased by only 19,000 hectares which was on the whole a *decline* over 1978, 1979, and even 1980! The World Bank had waken up to the reality in its May 1985 mission report when it observed: 'Cotton is *unlikely* to reach the production levels of the late 1960s because of competition from food crops and the sub-optimal agro-ecological conditions for its growth'.[12] This was also an *overstatement* because the production levels had even failed to recover to the levels of 1978, the last full year of Amin's rule!

It is interesting to note that while the cash crop export economy was caught up in this vicious circle, the food sector for both subsistence and for the domestic market seemed to improve. According to the IMF, the 'subsistence' sector had grown to 35.2 per cent in 1982-83 from 33.1 per cent in 1981/82. These rates were expected to be sustained in the following year.

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10 Ibid.

11 IMF: *Uganda: Recent Economic Developments*, January, 1984, p. 10.

12 IBRD: *Uganda: Towards Recovery and Prospects for Development*, Washington, May 1985.

TABLE IV

AREA AND PRODUCTION OF EXPORT CROPS: 1978-1984.

Crop	Area Planted ('000 hectares)							Marketed Production ***('000 Tonnes)						
	1978	1979	1980	1981	1982	1983	1984	1978	1979	1980	1981	1982	1983	1984
Coffee* of which:	223.0	224.0	224.0	224.0	224.0	224.0	224.0	121.2	103.0	135.2	97.5	166.6	157.4	138.7
Robusta	190.0	191.0	191.0	191.0	191.0	191.0	191.0	118.9	98.3	130.0	93.0	152.3	142.8	128.6
Arabica	33.0	33.0	33.0	33.0	33.0	33.0	33.0	23.3	4.7	4.8	4.5	14.3	14.6	10.1
Cotton*	677.5	417.0	312.4	121.3	150.3	169.6	199.4	20.4	7.6	6.1	4.1	5.1	9.8	12.2
Tobacco**	4.1	3.7	3.3	0.6	1.1	2.8	3.8	1.4	0.8	0.4	0.1	0.6	1.6	1.9
Tea	20.9	20.9	20.9	20.9	20.9	20.9	20.9	10.9	1.8	1.5	1.7	2.6	3.1	5.2
Sugar (Raw)	31.3	37.5	31.0	31.0	31.0	31.0		8.0	5.2	4.3	3.6	3.3	3.1	2.4
Cocoa	14.4	14.5	14.5	14.5	14.5	14.5	14.5	0.2	0.2	0.1	0.1	0.1	0.2	0.2

Notes: *Annual figures refer to CROP YEAR of coffee and cotton ending in September and October respectively, in the year indicated. It should be noted that planting, weeding, spraying, etc. in the case of cotton are carried out in the calendat in which the CROP YEAR start.

** The tobacco season for most tobacco growing areas coincided with a calendar year in which it was planted except for Kigezi crop which is normally bought in April/May of the following year, but it treated as a part of the year when it was planted. Note also that transplanting of tobacco starts in February/May in the year indicated depending upon the starting of the rain season.

*** Production figures are the official purchases by the Marketing Boards.

Sources: Coffee Marketing Board, Lint Marketing Board, National Tobacco Corporation, Uganda Tea Authority, Planning Unit of the Ministry of Agriculture and Forestry and Statistica Department, Ministry of Planning and Economic Development.

Source: Uganda Govt: *Background to the Budget, 1985-1986*. Table 18 p. 59

(e) *Industry*

Manufacturing, did not pick up much in 1981, although for the IMF that performance was regarded as 'dramatic'.[13] But this 'dramatic' performance was no more than a minute rise in the share of this sector in GDP from 4.0 in 1981/82 per cent to 4.1 per cent in 1982/83! The IMF records that the value-added in the sector rose to 10 per cent from 7 per cent in the previous year. It attributed this to 'free pricing policy' and the establishment of a temporary dual exchange policy. The IMF also attributed the apparent succes to timely supply of spare parts and raw materials which, it noted, had been 'financed largely by external assistance, particularly IDA I Reconstructioin Credit'.[14] It added that capacity utilisation had increased from 20-25% to 30-35%. In fact the reasons the IMF gives as having been the basis for the slight improvement had had a negative, if not a devastating effect, on the industrial sector as a whole. Contrary to the IMF, statistics provided by the regime's *Background to the Budget* show that of the seven important industries for which figures were available, four of them had produced below 10% capacity in 1982, and the one industry which in 1981 had produced at the capcity of 50% had fallen to 44.6% during the year. Apart from Madhvani Sugar Workd Ltd; Uganda Blanket Manufactures Ltd; and Uganda Rayon Textiles Manufactures which had showed a marginal increase in capacity utilisation of 0.3, 1.9 and 0.8% respectively, the rest of the industries had performed worse in 1982 than they had done in 1981.[15]

The reasons for this dismal performance given in the *Background to the Budget* were the lack of foreign exchange to purchase such vital inputs such as spare parts, raw and auxiliary materials, and the replacement of wornout machinery. Another reason given was the length of time which was taken to utilise foreign 'aid'. Profressor Mulema was right in pointing out the more fundamental factors: the cost of foreign exchange due to the 'floating' of the shilling in terms of local currency to pay for the inputs; the relatively low wages for the workforce; the insecurity which had curtailed the round-the-clock shift system of most factories, and the non-availability of local raw materials for certain industries such as cotton lint due to pressure to export the same to earn foreign exchange.[16] This had also affected certain food industries leading to cooking oils shortages due to the scarcity of ground nut and simsim seed as well as cotton seed for the local cooking oils.[17]

In fact as the Table V below shows, the industrial performance in 1983 and 1984 was much worse than expected. Capacity utilisation was almost negative in every section of manufacturing.

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[13] IMF: op cit. p. 15.
[14] Ibid. pp. 15-16.
[15] Mulema, P.: op cit. pp. 47-8.
[16] Ibid.
[17] Ibid.

TABLE V

PRODUCTION OF MANUFACTURED COMMODITIES

Item		1970	1975	1978	1979	1980	1981	1982	1983
Beer	(Mil. liters)	27.8	38.8	22.5	9.8	12.2	7.3	10.0	14.2
Uganda waragi	(000 liters)	563.0	859.0	420.0	124.0	33.0	20.0	35.0	27.7
Cigarettes	(Mil. Sq. meters)	1,536.0	1,754.0	1,303.0	598.0	629.0	205.0	746.0	645.0
Pipe tobacco	(tons)	127.0	108.0	66.0	9.0	11.0	6.0	33.0	32.0
Cotton & rayon fabrics	(mil. Sq. meters)	49.6	33.5	28.4	15.1	208.7	19.4	20.0	17.0
Blankets	(000 pieces)	1,164.0	309.0	174.0	76.0	93.0	133.0	129.0	119.7
Soap	(tons)	12,925.0	3,574.0	795.0	34.0	..	165.0	249.0	-
Matches-small size	(000 cartons)	49.3	25.1	4.5	4.4	3.3	2.0	1.9	1.0
Matches-large size	(000 cartons)	..	6.3	2.5	2.5	1.6	0.4	1.6	1.5
Super phosphate	(tons)	24.8	4.0	333.0	..	..	..	..	-
Playwood	(000 Sq. meters)	1,139.0	..	183.0	108.0	28.0	60.0	47.0	45.1
Steel ingots	(000 tons)	17.6	6.3	6.5	4.0	0.4	1.8	1.4	2.3
Corregated iron sheets	(000 tons)	11.9	1.4	2.0	0.4	0.6	0.4	2.5	3.0
Cement	(000 tons)	191.0	98.0	44.0	2.0	10.0	8.0	16.5	30.8
Paint	(000 liters)	1.6	0.9	0.8	0.2	0.3	35.0	523.0	426.0
Vegetable oils	(000 tons)	..	6.2	..	..	..	0.2	0.2	-
Animal feeds *	(000 tons)	18.1	10.0	..	..	5.8	3.5	2.3	5.2
Blister copper	(000 tons)	17.0	8.1	1.3	0.4	-	-	-	-
Footwear	(000 pairs)	..	1,586.0	1,268.0	678.0	942.0	463.0	476.0	916.0
Fishnets	(000 pieces)	489.0	299.0	141.0	47.0	36.0	12.0	38.0	75.0
Bicycle tires & tubes	(000 pieces)	..	503.0	746.0	353.0	85.0	20.0	..	136.2

* unofficial estimate for 1970.

Source: MPED, statistics department.

The World Bank in May 1985 was forced to admit that the performance in the industrial sector had been 'negative' and 'disappointing', adding: 'The slow recovery of industrial output is a matter of concern, and raises several important issues.'[18]

The Bank attributred this 'slow recovery' to 'outstanding ownership questions', bad management, shortage of working capital, and the uncerditworthness of companies. Although it saw the 'impulse' of industrial growth as having come from agroprocessing in sugar and foodstuffs as well as in the manufacture of textiles, beer, and soft drinks; it still maintained that the weight of value added of these industries and others in total GDP 'remains small so that it has only a modest influence on agregate output growth over the medium term'.[19]

The Bank noted that the initial positive response in this sector in 1981 - which, as we have noted, was only marginal - was not sustained in 1982-84. Value added in a 'sample firm' had grown by 14% in 1982 and then by only 3% in 1983. Value added in agro-industries grew by 23% in 1982 but this turned out te be due to the processing of the increased flow of export cash crops such as coffee and cotton. Coffee processing which grew by that much in 1982 has also fallen by 9% in 1983 following a decline in the officially marketed coffee in that year. Coffee processing alone also accounted for around 90% of the agro-industrial value added and 15% of the total industrial value added! Cotton ginning accounted for a continuing value added in 1983, but as we noted, this also declined in 1984. Sugar production which had shown some increase in 1981-82 fell by 20% to a negligible 3,100 tons-only 2% of the amount produced by the same mills in 1971! Food processing expanded by 50% in 1982, but fell back and expanded by only 10% in 1983. Some subsectors such as milk and grain milling had however sustained their growth and had by 1984 reached their 1971 production levels, again showing the vitality of the food sector in the internal market. Large industries also experienced the 1983 'slow down' and had their value added expand by 22% but this fell back to only 8.5% in 1983. These figures are reflected in the Table V. The performance in the table demonstrates that no industrial item ever came near to recovering its 1978 performance with the sole exception of paint!

With this record, the government's *Revised Recovery Programme* (RRP) which had placed emphasis on restoring the capacity of the 'core' manufacturing industries as part of the governments industrial strategy involving industries such as agro-processing, import substitution, construction materials, and industries with a large impact on government revenue, did not get off the ground. The RRP had envisaged fixed investment of US $ 437.5 million on specific projects in cement, textiles, sugar, tobacco, beverages and phosphate with an additional US $ 94 million which was to be disbursed through the UCB and UDB. As of June 1984, disbursement under the RRP on industrial projects totalled only US $ 77.3 million, or 39% of

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[18] IBRD: op cit. pp. 11,40.

[19] Ibid.

the governments planned expenditure in this sector, and of this 65% was concentrated in three subsectors: sugar (US $ 23.3 million); textiles (US $ 14.5 million); and cement (US $ 12.6 million) - all this with negligible results as we saw. The balance could not be fully utilised, according to the World Bank, *not so much* because of lack of foreign exchange, as can be seen, but according to the Bank, because of a 'series of inter-related problems' which included management, and uncreditworthiness of enterprises

(f) Industrial prices, costs, and wages

From the above it can be seen that the impact of the 1981 IMF stabilisation policies, pursued with gusto by the World Bank, would be negative on industry as well. Already we have noted that the one reason why the peasant producers were being paid less and less in terms of the real producer prices was that the costs of processing were increasing with increasing volumes of the crops processed. This meant that processing factories and mills were being faced with an increasing cost structure and since the agro-industrial activities, based on coffee, accounted for some 15% of the total value added of the entire sector and 90% of the agro-processing subsector, it can be seen that the impact of this high cost structure alone on the entire industrial activity in the country would be negative. The high cost structure to which the World Bank referred was the result of this impact.

To be sure, this speculative, nay, parasitic drive to make huge profits out of the dual exchange system which was running down the agricultural sector by over-exploiting of the peasant was doing the same to industry. *First,* the calculation of export earnings on coffee, cotton, tea, and tobacco at window 1 for peasant producers also applied to agro-processing industry of their own share of the export earnings. In this way even the share of the export earnings attributed to the processing costs of about 30% on the average per year for coffee between 1980 and 1983 were subjected to the same speculation by the state at window 2 before passing it on to the agro-processing industries. This explains why the costs of this sector of industry kept on rising even with rising output, because the share they were being paid was valued at window 1, when all their import needs had to be paid for at window 2.

Second, the government itself had noted with regard to the shift from specific to *ad valerom* duty system, that fifty per cent of all the import value went into industry as input. The very raising of import duty by these means meant that a great deal of the inflation in the internal prices was accounted for by the fact of the devaluation. This was because some of these now highly costed domestic manufactures were inputs in other domestic industrial activities. The result was that this second layer of costs was bound to be even much higher for the other sectors of the economy which depended on them. This is why many of these enterprises found it prohibitive to purchase inputs. One obvious input here was the petroleum product whose escalating window 2 prices went into a number of domestic enterprises including public utilities like electricity, itself a form of energy which was basic to industrial production in the country. Such high cost was bound to set off a spiral of prohibitive costs in all directions. In such a case the overall cost structure in the industry as a whole was bound to be very high Consequently it offered no incentive to any enterpreneur, state or private, to expand production.

Third, the lack of working capital which is alluded to by the World Bank as one of the 'constraints' to the recovery of industry, inevitably arose out of the dual exchange system. The rapid depreciation of the exchange rate at window 1 created undertainty for all purchasers of foreign exchange and for the exporters. The former had to find increasing amounts of the local Uganda shilling to bid for the foreign exchange at window 2, and this amount could not be known from week to week, so that with the best of the management in the world, it increasingly became an impossible task to plan. The high volumes of currency which were needed to apply for the foreign exchange to pay for the spare parts and other intermediate goods, not to speak of the materials, was also another headache to heal every day. The exporter tried to play for time and wait for even more depreciations before exporting his product and this led to an in-built desire to *delay* orders, and to that extent also to delay *production*. Precisely what was the likely or appropriate exchange rate was a matter best left to the conjurers, magicians, and the sorcerers!

Fourth, even those who were fortunate to obtain window 1 rates for their imports, given this lucrative speculative atmosphere, found it the natural thing to increase their internal prices to window 2 levels for this was truly 'free competititon'. The World Bank belatedly noted: 'As a result, those favoured with access to imports at window one make windfall profits while producers whose prices are notionally related to window-two rates (e.g. coffee and cotton growers) are squeezed...'[20] But this was a matter which should have been foreseen! The 'access' to window 1 of course became a matter of great rivalry among the petty bourgeoisie in which ethnic politics became an aspect of it, creating great political divisions in the country.

But more crucially, a fact the Bank does not mention in its mission report, was the tendency for this factor to increase the cost structure for both consumers and the economy as a whole. Fundamentally, it created a basis for the consolidation of the parasitic bureaucrat capitalist stratum in the state sector, which created alliance with the comprador stratum in the private sector. Both thrived on this form of 'corruption' to the detriment of the country's economy. Access to window 1 became a major corrupting influence in the country,as well as a divisive one in the body politic.

Fifth, the exchange rate policy, apart from increasing the cost structure for domestic production as a whole, had also directly led to the increasing liquidity in the economy through the state budget and state borrowing as if the state revenues from the currency was not enough!

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[20] IBRD: *Uganda: Country Economic Memorandum*, 1983 (official copy) p. 30.

This liquidity filtered through into private hands of those who had government contracts when industry was denied the working capital. This liquidity added to increased *monetary inflation* in the economy which once more hiked up input prices. When the crunch came in the middle of 1984 after the merger of the two windows, it appeared as if what was required was the re-institution of the dual exchange rate once more in order to 'mop-up' this new 'excessive liquidity'! The World Bank again in another report made the obvious point:

> 'With prices increasing by 70% over the six months July-December 1984, (compared to an annual rate of 25% from June 1983 to July 1984), it is not surprising (sic!) that the exchange rate has depreciated so sharply. To alleviate the situation (sic!!), a tighter financial policy (one again! - DWN) is essential. It is important to increase the supply of foreign exchange at the auction, and the Third (IDA) Reconstruction Credit is already helping in this respect'.[21]

Yet the Bank does not explain to us why the prices had not obeyed the laws of 'supply and demand' and why they had risen so rapidly between the six monts. Nor does it explain why the prices kept on rising by 25% and then by 70%. In fact the Bank had in 1983 advised, as we saw, that the further depreciation of the window 1 rate was in order and that as soon as the two rates merged in June 1984 the dual rate 'distortions will be reduced'.[22] But the Bank ignored the fact that the auction system was itself the very reason which had led to the 'distortions' and price rises, which had in turn given rise to 'the current disarray in the industrial sector, which had led to a low effective demand for imported inputs for industry'.[23]

If that was the case, which indeed it was, then truly the economy was placed in an impossible situation. Instead of improving the situation, it again appeared to the good economic theory of the Bank that this would be achieved by further injection of foreign exchange from outside to start the process once again. This is because the Bank was coming to the conclusion that as far as industry was concerned the raising of working capital required further recourse to external sources. It did this after coming tot he other 'conclusion' that the real problem for industry was not rehabilitation but 'restructuring' which required 'large amounts of capital'. It now advised that Uganda's capital stock was outdated and required recapitalising altogether! Thus the whole reform exercise had destroyed even that little industrial capacity Uganda had at the end of the Amin era in 1978! The country in 1985 found itself far worse off than it had been under Amin! What the World Bank now advised was not to go back to the 1970s but to the 1950s!

This state of affairs was bound to affect the level of employment and living standards for the labourers in this sector as well. According to the IMF itself, the policy of adjustment

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[21] IBRD: *Uganda: Towards Recovery and Prospects for Development*, Washington, May 1985, p. 17.
[22] IBRD: *Uganda: Country Economic Memorandum*, Washington, 1982, p. 31.
[23] IBRD: *Uganda:Towards Recovery and Prospects for Development*, Washington, May 1985, p. 18.

measures introduced in June 1981, had 'significantly reduced real minimum wages and the real income of most wage and salary earners'.[24] For the civil servants, as we noted, an increace of 25% was granted in August, 1981 followed by the raising of the worker's minimum wage in the same month by 150% to Ushs. 950 per month. Another effective increase to the civil servants was granted in 1982 amounting to 20% through the reduction of their pay to zero in June 1982. There was a further average increase of 20% in April, 1983 and another one of 50% in July, 1983 for the civil servants. But these could not cope with the rise in the cost of living which was estimated to have gone up by 80% per annum since 1979. These salary and wage increases did not catch up with the galloping inflation and as a result, in June, 1984, the government again decided to grant another overall increase to its civil servants and workers amounting to between 300%-600% in what looked like a 'final solution' to the problem. These increases amounted in current Uganda currency to an average increase of ten times those of August 1981 which gave an idea of the rate of inflation in the economy that had taken place. The World Bank observed:

> 'Since the consumer price index has approximately quadrupled during the same period, government wages have approximately doubled in real terms, although inflation since June 1984 (i.e. after the increases - DWN!) has eroded some of this gain. Furthermore, it is highly likely that the quantum increase in civil servants' salaries awards in mid-1984 will result in similar pay increases in industry so that substantial real wage increases in that sector can be anticipated early 1985. Unless the current rapid inflation decelerates, however, these real increase will soon disappear'.[25]

Table VI below gives a picture of the plight of the workers in this period before the 1984 increases. This clearly shows that not only the peasant producers, but also the workers were being exploited to the maximum in ways which also affected the middle class. The crisis was affecting the overwhelming majority of the people of Uganda except a minute minority that benefitted from their speculative activities with the assitance of the top state officials.

The government's own *Background to the Budget* states that the Kampala index of the cost of living showed that after February 1983 the index rose steadily until Ocotber 1983 before it fell in February 1984, but only briefly. From February 1984 the index rose 'steeply' to 502.3 in May 1985 'implying prices are now more than five times their August, 1981 level'. It adds that in percentage terms, prices had increased between August, 1981 and June 1984

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[24] IMF: *Recent Economic Developments*. 1984, p. 21.

[25] IBRD: *Uganda:Towards Recovery and Prospects for Development*, Washington, May 1985, p. 18

TABLE VI

EMPLOYMENT AND REAL WAGES IN SELECTED SECTORS, 1980-83 a/

	1980	1981	1982	1983
Industry b/				
Employees ('000s)	32.7	32.7	36.3	35.2
Annual Wage Bill (USh Mil.)	300.5	539.5	685.6	1,228.5
Annual Wage per Employee (USh)	9,189.6	16,498.5	18,887.0	34,900.6
Real Wages (1980 = 100)	100.0	98.0	83.2	127.6
Construction				
Employees ('000s)	7.2	9.3	11.5	12.9
Annual Wage Bill (USh Mil.)	86.8	111.8	138.4	232.5
Annual Wage per Employee (USh)	12,056.0	12,022.0	12,035.0	18,023.0
Real Wages (1980 = 100)	100.0	54.5	40.4	50.2

a/ Deflated by consumer price index.

b/ Based on a sample of manufacturing enterprises.

Source:: World Bank: Uganda: *Towards Recovery and Prospects for Development*, 1985 p. 9.

by 402.3 per cent or at a compound rate of 53.8 per cent per annum for the low-income groups; and 342.1 per cent or compound rate of 48.6 per cent per annum for the middle income group.[26] The World Bank states that during 1981 and 1982 (before the situation got worse), per capita incomes overall rose by less than 5% after taking into account population growth for the two years. This however was 'offset' by the deterioration in the terms of trade. If this net picture was adjusted for the over-valued exchange rate, per capita GNP in 1982 was estimated by the Bank to be US $ 240 per annum, ranking Uganda among the poorest countries in the World. This then gives us a picture of the state of the economy and the position of the different social classes in it. The result is, as can clearly be seen, a total disaster for Uganda. The worst hit in this crisis were of course the ordinary manual workers. Their minium wage was inadequate to meet their basic nutritional needs to reproduce themselves. A study carried out by two Ugandan economists revealed that the basic monthly salary paid to them of some US $ 7 by December 1985 was not adequate to provide them with the minimum calorie intake of

[26] *Uganda Government: Background to the Budget 1985-86*, Kampala, 1985, pp. 15-16.

15,884 KJ. Many suffered from simple diseases and had high rates of on-job accidents which were not compensated. Absenteeism was very high and this was caught mainly by sickness on the one hand, and by the need to 'do something more profitable' on the other. High absenteeism according to the study was also caused by the bare desire 'to get sufficient rest from the heavy manual tasks for which they were not physically fit'.[27]

Thus we can now clearly see the end results of the IMF-World Bank package on the economy of Uganda as a whole. We can see who were the benefactors and the 'losers'. We can see in this process why particular policies were pushed onto the regime and why the regime itself adopted certain short-term measures at times in contradiction to those of the IMF-World Bank syndicats. We can see that in fact all these approaches were part and parcel of the same package in which both the international financiers and their local agents found themselves in a growing and an all-embracing crisis both in the economy and the political life of the country, as the rebellion and civil conflict, reflecting to a great extent these repressive policies and relations, grew in intensity.

5. DEVELOPMENT UNDERMINED

The *Revised Recovery Programme*, as we have seen, was to cover the period of two years, 1982-84. Later it was extended to cover a period of three years. According to the government's own estimates, actual development expenditure achieved in the first year was only US $ 152 million. This was less then two thirds of the level which had been proposed in the orginal investment plan, and reflected the actual shortfall in the 'aid' disbursements and imports of productive inputs and machinery. With the revised programme, it was envisaged to increase the 'development' investment substantially. But in fact during the actual performance in 1982/83, the recorded 'development' expenditure increased by less than 30 per cent of the expected expansion, resulting in a decrease in real terms. Indeed it had even then remained unchanged over 1981/82, with key areas such as economic services and education receiving less than the previous year.

This was seen by the IMF as a 'departure' by the government from its 'announced objectives' of the RRP during its first year. Since the major constraint was seen as the lack of 'absorptive capacity' of foreign 'aid' with which these 'development' projects were associated, the 'donors' now decided that in order to implement the 'development' projects for which they had committed the funds, they would overcome the constraints by 'packaging' their assistance into 'turn-key' projects that would have minimal domestic counterpart requirements.[28] It was

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[27] Dr. Aluma & Kamugisha Ruhome: "The Problems of Manual Workers of Uganda" in *Weekly Topic*, May 6, 1987, pp. 16, 21.

[28] IBRD: *Uganda: Towards Recovery and Prospects for Development*, Washington, May 1985, pp. 171-72.

with this 'new' strategy that IDA disbursed its first reconstruction credit directly to enterprises for the purchase of necessary imports. This is said by the World Bank to have facilitated the whole recovery process. But this itself was in fact part of the problem, because even the amount which was disbursed in this way was not available for secondary lending. This was because the enterprises that had received the foreign currency in this way were themselves unable to deposit the equivalent in local currency of this 'minimal' counterpart funds with the Treasury, as had been agreed, to facilitate the process! The problem seemed to be locked into some vicious gordian knot.

In order to remove these apparent 'bottlenecks', the IMF adopted new measures. During 1983/84, the government had placed increased emphasis on restoring 'sound fiscal policies through improved financial discipline' with a view to reducing the deficit to shs. 18.1 billion. These disciplinary measures, we have seen, were contained in the 1983/84 financial programme under the IMF second stand-by arrangement with Uganda. With this programme there was a 'pronounced reallocation' of funds towards 'development' projects. To achieve the objectives within the context of a lower budgetary reliance on domestic bank financing - which was controlled as part of the credit restraint measures of the IMF-recurrent outlays were to be approximated to the level of resources that could be generated domestically. But despite this, the increase in the 'development' budget was to be achieved by the external funding of the same. This budget was fixed at shs. 36.3 billion and was funded from the World Bank-IDA loan. The level of domestic bank financing needed for the development budget was deemed to be about shs. 2.5 billion. The total domestic credit was above the originally revised estimate of shs. 15 billion. This was expected to be raised through normal commercial channels.

The government had undertaken in the stand-by arrangement that if the foreign loans were lower than expected, the government would have to reduce both the development budget and the overall fiscal deficit by the amount which it fell short from foreign sources. During the actual implementation in the first quarter of the fiscal year, it turned out that the government had raised more revenue than expected from various taxes, but this increase was 'somewhat offset' by lower than expected revenue-receipts from pretroleum taxes which arose because of the further depreciation of the currency as we noted earlier. But this depreciation had affected the amounts of the total budget because the exchange rate movements on development outlays had increased in terms of local currency and the debt servicing had increased to the same extent, leading to a further cut in the total budget. This now meant that the bulk of the budgetary deficit would be financed externally.

In the event, again the enhanced development budget did not materialise in actual project implementation. Over sixty per cent of the projected shs. 36.6 billion were not used, as Table VII below shows. Only shs. 16.6 bililon was used in the actual implementation. The reason for this 'brave attempt', according to the World Bank, was due to the relative unplanned increase in the Treasury Main Clearing Account (TMCA) of 38 per cent (wich invariably meant increase in the military budget). Nevertheless it was 'brave' because this performance was double that of the previous year, 'Attempt' because the performance had fallen short of the projected increases bearing in mind that this was the actual implementational phase of the extended RRP.

Having fallen back again in their attempt to implement their projected recovery 'development' programme, the government made another serious resolve 'this time' to 'really do something'. The development budget for 1984/85 was uplifted once more to shs. 82 billion which was more than double the previous year's more than double estimates. This shs. 82 billion was to be met from the expected total recurrent revenue of shs. 134.2 billion and an additional revenue from the development revenue budget of shs. 5 billion, as well as a further shs. 53 billion from external sources. This new resolve was, in the governments words, a 'deliberate emphasis' which had brought the development budget to eight per cent of the GDP.[29]

But this well meaning 'development emphasis' also came to very little. In the first half of the year, only 24 per cent of the budgeted funds had been utilised. According to government, total state expenditure for the first nine months of the fiscal year had exceeded the projected target by shs. 24.8 billion which represented 16.5 per cent of the total budget. This was because of the more than anticipated interest payments on the Treasury Main Clearance Account-TMCA, to which part of the military budget was debited. This Treasury releases and recurrent expenditure had exceeded the projected budget and the 'development' expenditure had 'in contrast' only amounted to shs. 39.6 billion below its target level in real terms.[30]

This ill-fated performance was due not so much to a shortage of funds, explained the World Bank, as to the 'pattern' with which the government had decided to finance the deficit. According to the Bank, the budget for 1984/85 had provided for an overall deficit of shs. 61.6 billion, 'but in the context of a very large aid-financed increase in the development expenditure', as well as a 'healthy surplus' in the recurrent budget of shs. 22 billion. This surplus had in the end been reduced to shs. 7 billion, but the actual revenues collected were in line with those projected. What went wrong, in the World Bank's view, was the 'excessive growth' in *recurrent* expenditures which had led to a 'massive increase in domestic credit expansion', while the short-fall in development expenditure had meant that the sizeable external resources remained unutilised.[31] This expansion of domestic credit had been from central bank borrowing. Thus it became clear from the point of view of international finance capital that certain deficits in the state budget were acceptable so long as they did not emanate from the

[29] Uganda Government: *Background to the Budget to the Budget 1985-86*, Kampala, 1985, p. 14.
[30] Ibid.
[31] *Uganda: Towards Recovery and Prospects for Development*, Washington, May 1985, p. 19.

expansion in domestic credit, more fatefully from the Bank of Uganda, which was ocurring at this very time.

From the stand-point of international finance what was required now was to generate deficits which were externally funded in such a way that the external funds acted as the *spark* which would ignite the 'development' motor. But the external resources - or finance capital - could only do this so long as those funds were used to enter into certain predetermined productive activities which the financiers had approved of. They could also only do so by strengthening the intermediation role of certain local banks and financial institutions through which this spark could start the process. Government borrowing from the Central Bank must not endanger this process.

In the event no development could take place, because finance capital could not organise the local counterpart funds to match its 'aid'. In short what was required was the strengthening of the domestic banks and financial institutions. Thus the negation of development in the country was directly traceable to the demands of international finance capital, and the World Bank and the IMF syndicate which were interested in a certain level of 'development' to back up their fincance paper which they were pouring into the country. The Syndicate began to devise new ways to strengthen these banks and financial institutions.

TABLE VII

SUMMARY OF GOVERNMENT BUDGETARY AND FINANCIAL OPERATIONS: 1980/81-1984/85.

(Shs. million)

Budget/Financial Operations	1980/81	1981/82	1982/83	1983/84	1984/85 9 Months Provisional (Actual)
Recurrent Budget:					
Revenue	2,730.0	24,390.0	52.239.0	92,900.0	115,800.0
Expenditure*	11,191.7	28,006.2	43,867.6	60,300.0	129,600.0
Deficit/Surplus	-8,463.7	-3,616.2	+8,371.4	+32,600.0	-13,800.0
Development budget:					
Revenue	575.0	3,488.0	583.0	4,500.0	7,200.0
Expenditure*	3,007.7	8,990.6	8,233.8	16,600.0	21,600.0
Deficit	-2,432.7	-5,502.6	-8,233.8	-21,100.0	-14,400.0
Other expenditure					
Items**	-1,130.4	+6,300.2	+16,675.6	+46,400.0	+24,200.0
Total Deficit	-9,766.0	-15,419.0	-16,538.0	-25,900.0	-52,400.0
Financing:					
External (net)	766.0	1,000.0	3,634.0	3,000.0	n.a.
Domestic	9,000.0	14,419.0	12,904.0	22,900.0	n.a.
-Bank	8,800.0	13,319.0	11,365.0	-3,200.0	n.a.
-Non-Bank	200.0	1,100.0	1.539.0	26.100.0	n.a.
Total financing	9,766.0	15,419.0	16,538.0	25,900.0	52,400.0

Notes: * Cheque-issued basis

** Includes Net change in Treasury Main clearing Account, Extra-Budgetary Fund Balances, Contingencies and the Identified change in Domestic Arrears

Sources: Ministry of Finance and IMF

Source: Uganda Govt: *Background to the Budget 1985-1986*, p. 56.

6. DEFENCE EXPENDITURE INCREASES.

Whilst development was being undermined in this way and peasant exploitation was increasing, the regime, caught up in deepening civil war which the IMF-Bank had been indirectly financing increased its expenditure on defences. At the same time repayments to the IMF began to build up rather quickly over the four years as to produce a *negative* inflow of new capital which made the regime evenmore reliant on the IMF. Already in 1982/83 a greater allocation of resources had been put aside for the military expenditure and interest payments on the accumulating domestice debt which was also connected to the growing military budget. In that year, 'development' expenditure on defense had absorbed a total of shs. 800 million, in addition to the actual budgetary allocation of 16 per cent, and this brought the total defense budget to 29.3 per cent of the total budget.

The additional allocations to the defense budget were achieved through the technique of using the Treasury Main Clearing Account-TMCA-which originally was meant for temporary use against voted expenditure. During the period of the military rule under Amin, it was used to cover defense expenditure. From 1982/83 onwards, withdrawals from the account were used for the same purpose and in that year the account totalled shs. 27.1 billion which was 44 per cent of the total budgeted expenditure! This was partly offset by a credit of shs. 6.9 billion on other government accounts at the Bank of Uganda. In the first half of 1984/854, the account increased by an additional 22 billion, indicating that most of the borrowing from the banking system was in fact going to the defense budget. By this time the higher state expenditures were also being atttributed to a rise in interest payments, most of them on debts on this acount. In this way, the TMCA had risen from shs. 3 billion at the end of 1981, to shs. 13 billion a year later and to shs. 40.1 billion at the end of June 1983. 1985 doubled this figure.

Another feature of the situation was that this rising expenditure on the defense budget was also affecting the composition of imports. In 1982/83, the ministry of defense imports had accounted for 43 per cent of government imports and 10 per cent of all imports to the country. This of course also affected the implementation of the 'development' budget which increasingly became a minor element in this kind of situation, as we have seen. The World Bank was to observe later:

> 'Given the critical importance of security issues, the Ministry of Finance often finds it difficult to control extra-budgetary expenditure, the accumulation of domestic arrears and external financing arranged by the Ministry of Defense. On the other hand, the Government considers the present level of defence expenditures to be justified by the need to establish security forces after the 1978-79 war.'[32]

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[32] IBRD: *Uganda: Country Economic Memorandum*, 1983, pp. 5-6.

According to the ministry of defense these expenditures were necessary to build barracks, buy uniforms, and food, as well as to produce essential items to 'improve army morale and discipline'.[33]

Another World Bank study remarked that the defense budget continued to account for a 'large part of the total budget'. It added that with the addition of other Security-related expenditures, which were accounted for under the President's Office in the General Public Services, 'about one-quarter of the total recurrent expenditure is accounted for in this way'. It also added that in addition to this large expense, public debt servicing had 'rapidly risen since the early 1980s and is now hovering around 25 per cent of the total expenditure'. The study noted that about 15 per cent of this 25 per cent was going to servicing domestic debt which, as we know, covered most of the state borrowing on account of defense. In this way, it is possible that the effective defense budget could have accounted for 40 per cent of the total expenditure of the state. The World Bank had finally noted that such large outlays clearly undermined the development projects.[34]

7. EXTERNAL FUNDING AND THE EXTERNAL DEBT

It can now be seen that the whole purpose of the IMF-World Bank programmes was aimed at subjecting the Uganda economy to further external pressures through these policies. It was becoming clearer to every one in Uganda that far from assisting the development effort in the country, external finance was doing its best to strangle development. This linkage to the external market forces which was being achieved through the IMF-World Bank stabilisation and structural adjustment economic measures, was not contrived but came out of the actual production relations themselves. It was not by accident that the Commonwealth team had in 1979 advised that all development expenditure then envisaged by the UNLF government had to be suspended along with all on-going development until 'aid' had been promised.[35]From 1981, such 'aid' began to come in the quantities which were directed to particular 'development' projects within the RRP. By 1983 around 80 per cent of the RRP was being funded from external sources.[36] Table VIII below shows that between 1980-83 external commitments to Uganda's projects and programmes averaged US $ 330 million annually, of which 57 per cent were from multilateral sources, with World Bank - IDA being the main source providing 24 per cent of this amount; and bilateral 'aid' accounting for 26 per cent of the

[33] Ibid.
[34] IBRD: *Uganda: Towards Recovery and Prospects for Development*, Washington, May 1985.
[35] Commonwealth Secretariat: *The Rehabilitation of the Uganda Economy*, 1979 Vol. 2, p. 284, Vol. 1, p. 19.
[36] IBRD: *Uganda: Towards Recovery and Prospects for Development*, Washington, May 1985, p. 28.

remaining amount. Later bilateral sources had committed a further 26 per cent to the programme.

The figures shown in the table are in US $ at current prices, when the dollars were translated in Uganda shillings after the devaluation, the conversion had hiked up the amounts required in the local currency and this had made the aid 'cheaper' for the financiers and more expensive for the users. For instance translated into Ugandan shillings, the external funding was quoted as having risen from shs. 1.0 billion in 1981 to shs. 112 billion in 1982. As can be seen in the table, these funding figures continued to rise in current prices and, as the currency depreciation cintinued, the 'aid' had also increased in domestic currency. This rise in local currency 'values' of the 'aid' is what made it increasingly difficult for local users to mobilise local funds to utilise this 'aid'. It also meant of course that from now onwards, Uganda would have to marshall larger amounts of local currency to repay the debts when time came, which was not to be far off as we shall soon see.

TABLE VIII
EXTERNAL FINANCING
(US $ million at current price)

	1980	1981	1982	1983	Average 1980-83	Estimate 1984
Gross commitments						
(Loans and grants)	346.0	339.1	337.1	298.7	330.2	299.4
Bilateral	92.0	97.6	49.9	105.9	86.4	-
Multilateral	199.3	172.6	216.6	164.0	188.1	-
Other	54.7	68.9	70.6	288.8	55.7	-
Gross disbursements						
(Loans)	134.9	99.7	120.6	93.7	112.2	138.6
Bilateral loans	53.1 [a]	47.6 [b]	15.5	3.6	29.9	-
Multilateral loans	35.0	38.2	74.6	62.1	52.5	-
(of which: IDA)	(1.1)	(15.4)	(48.6)	(32.6)	(24.4)	-
Other	46.8	13.9	30.5	28.0	29.8	-
Amortization	-21.9	-61.0	-56.7	-67.2	-51.7	-69.9
Net disbursements						
(Loans)	113.0	38.7	63.9	26.5	60.5	68.7
Disbursement of grants	93.2	105.5	90.5	78.9	72.3	79.3
Total net transfer of						
loans and grants	200.7	138.1	141.0	85.3	121.6	148.0
IMF-Purchases	48.8	144.4	93.8	120.5	101.9	21.5
-Charges & repurchases	-13.6	-17.4	-16.0	-45.1	-23.0	-72.4
-Net transfers	35.2	127.0	77.8	75.4	78.9	-50.9

[a] Includes US $ 51 million from Tanzania.
[b] Includes US $ 33.6 million from Kenya.

Source: IMF: Recent Economic Development, 1984

It was this phenomenon that began to slow down the disbursements of the 'commitments' to the projects-a factor that was blamed on the shortage of local funds! Disbursements of medium term and long-term 'aid' commitments became relatively small averaging US $ 112 million over these years. Disbursements of bilateral loans were very slow compared to the multilateral ones which disbursed faster. From 1980 bilateral loans began to decline from US $ 53 million in 1980 to US $ 3.6 million in 1983. Multilateral loans moved faster because of the relatively quick disbursements of the IDA Reconstruction Credits. Grants also increased in their disbursements. There was also an extensive use of IMF facilities amounting US $ 379 million over the four years 1981-84. But the situation would not have deteriorated so much if the demands for repayments, particularly by the IMF itself, had not mounted right from the beginning of the programme. Indeed, these mounting demands were part of the very process of bringing about the policy adjustments, and the conditions for repayment were built within the performance criteria, as we noted earlier.

As can be seen from Table IX, interest payments increased from US $ 11.4 million in 1981 to an estimated US $ 59 million in 1984. Amortisation rose from 73.1 million in 1981 to US $ 107.6 million in 1984. The capital account had only 'benefited' from a larger inflow of 'aid' in 1982/83 which reflected itself as a lower official outflow. Although 1982/83 also 'benefited' from debt relief from the Paris Club amounting to US $ 16 million in interest and principal payments and a US $ 30 million rescheduled Tanzania debt, as well as from a further rescheduling of arrears of about US $ 48 million, repayments showed little change from that of the previous years of US $ 95 million. The substantial fall in the principal payments arose from the fact that the structure of the old debt was shifted to include more long term concessional aid, thus contributing to lower official outflows.

But in the absence of debt relief in 1983/84, principal payments rose sharply once more. This rise was accounted for by the fact that IMF charges and repurchases (repayments) continued to claim the greater part of the total repayments. By 1984, 43 per cent of all external debt service payments were being made to the IMF. The debt service ratio on the overall medium and long-term debt increased from 20 per cent to 27 per cent, whereas the debt ratio on the IMF repurchases rose from 25 per cent to 44 per cent. The repayments of US $ 32.5 million to the IMF in 1984 was in excess of its transfers to Uganda of US $ 22.3 million under the 1983/84 stand-by arrangement, making the IMF 'contribution' *negative*. It continued to remain negative in 1985. Thus despite the relatively lower IMF loans to Uganda, the IMF was within a short time taking out a much larger extraction of resources than it put in.

Because of this negative capital inflow and net out flow to the IMF of US $ 10.2 million in 1984, and the overall deficit of US $ 52.6 million, Uganda was forced to draw down on its reserves which totalled US $ 63.2 million. During the first quarter of 1984 Uganda drew 33.5

million from this reserve account and a further US $ 8 million in the second quarter from it leaving an amount which was equivalent to a mere 1.7 months of the import bill by the end of 1984. No wonder the regime began to break all the rules of the game around this time as the pressure built up both internally and externally.

Uganda's debt in these circumstances was built up despite the large repayments of the IMF principal and interest. From US $ 262 million in 1977 of the publicly held and quaranteed debt, the debt increased to US $ 629 million in 1981 and to US $ 574 million in 1982 despite the Paris Club cancellations and reschedulings. The total debt as of 1983 amounted to US $ 614 million and by 1986 the external debt alone stood at US $ 2,013 million.

TABLE IX

EXTERNAL DEBT SERVICES 1981-84
(US $ million)

	1981	1982	1983	1984 Estimated
Interest payments	11.4	27.7	42.5	59.9
Suppliers' credits	0.2	1.0	1.6	-
Financial institutions	-	-	0.6	-
Multilateral loans	0.8	5.5	3.8	-
(IDA)	(0.3)	(0.4)	(1.3)	-
Bilateral loans	1.7	3.7	11.5	-
Share of IBRD loans to EAC	(3.3)	(3.2)	(3.1)	-
Subtotal	6.1	13.4	20.1	25.1
IMF charges	5.3	14.3	22.4	33.8
Amortization	73.1	58.4	79.9	107.6
M&LT loans	61.0	56.7	67.2	69.9
IMF erpurchases	12.1	1.7	12.7	38.6
Total external service	84.5	86.1	122.4	166.6
Memorandum items:				
Debt service ratio [a] on medium & long-term loans (%)	26.9	20.7	23.1	25.2
Debt service including IMF (%)	33.9	25.4	32.3	44.1

[a] Ratio of interest and amortization payments to exports of goods and services.

Source: IBRD: UGANDA: *Towards Recovery and Prospects for Development*. p. 31.

8. BALANCE OF PAYMENTS

Uganda's balance of payments was bound to remain negative in these circumstances. Beginning with the Commonwealth Team's report, balance of payments of the country was seen as a problem of the short-term. This is why the Team had recommended two budgets within a year: one with a big deficit which was covered mainly by balance of payments support with a moratorium on unpaid official debts; and the other, a balanced current account araising from a reduction in smuggling and a build up of coffee inventory, enabling foreign currency to be built up with a beginning being made on repayments of loans. The objective of the IMF stand-by arrangement after 1981 was also aimed at achieving a balance on the current account as soon as possible leaving deficits to be covered by foreign loans for capital development. This objective however was to be realised by pursuing two contradictory policies. These policies were pursued by the IMF itself and the World Bank through IDA. One was to reduce 'effective demand' in the economy and to deflate the economy; and the second was to encourage the 'supply side' by creating 'growth' in the agricultural sector mainly for export. Reduction in effective demand contradicted the 'growth' policy and the devaluation of the currency put the gear in the reverse on 'growth'. The balance of payments situation in which Uganda found itself in on both the current and capital accounts reflected these contradictory policies of the two multilateral institutions. The first by the IMF and the second by the Bank.

To be sure, the short-term 'shot-in-the-arm' tactics of the IMF and IDA did produce a semblance of 'export boom' with the decreased price of cash crops for export which had arisen from the devaluation. Official exports of coffee increased in 1982 to 174,000 tonnes with values also increasing due to an increase in external prices. There was also a noticeable 'diversification' in the exports to 'non-traditional crops' such as hides, skins, and maize, (mainly to Tanzania to repay for the war-related loans). But soon coffee sales were constrained by the coffee quota, although this too was later increased but not enough to clear the crop with the result that a sizeable amount of coffee continued to be sold on the non-quota market at much lower prices. However when the export performance was adjusted over the two years for terms of trade, the purchasing power of exports in 1983 came to about the same as that in 1980 and less than one-third of the 1970 level.[37] This was so despite the improvement in the external value of coffee exports for 1982 and 1983. Although other 'traditional exports' such as cotton, tea, and tobacco increased, coffee easily remained the major export earner. Their value index increased by 3 per cent, compared to 21 per cent for coffee in 1983. But the continuing adjustment problems connected with the devaluation of the currency continued to create difficulties for the expansion of production and marketing of coffee and the other export crops

[37] IBRD: *Uganda: Country Economy Memorandum*, 1983, pp. 6,12.

as we saw earlier. The result was that although Uganda managed to obtain an increase in her coffee quota to 153,412 tonnes for the 1984/85 crop, problems connected with crop financing, transport, etc. led to a fall in coffee volumes to 133,200 tonnes in that year. The coffee price continued to rise to US $ 2.72 per kilo but, as we have seen, the producer price to the peasant producers although 'rising' was increasingly becoming less in real terms and this accounted for the drop in the collection and marketing of the crop.

On the *imports* side, the value of imports increased steadily from 1981 to 1983, but with a sharp decline in 1984 as Table X below shows. This decline in 1984 was due to the 'positive international inflation' for that year which led to a real fall in the volume of imports for that year. The other major reason for the decline was the reduction in the aid-financed imports, absence of IMF inflows, and the fall in petroleum imports. But an even greater reason for the decline was the much higher cost of imports occasioned by the continuing depreciation of the shilling. This tended to lessen the demand for imported items both for productive and consumption purposes. The use of 'aid' for imports also brough about a shift in the *structure of imports* from 1981 onwards, with an increase in the share of government imports rising from 19 per cent in 1981 to 24 per cent in 1982. Initially the shift had reflected the requirements of the military, but after 1982 they became more generalised. Later the overall levels of government imports declined but that of the Ministry of Defence were maintained and even increased.

All the elements mentioned above tended to dampen the increase in the imports for development, and this was seen by the World Bank as having been a 'disturbing trend'.[38] There was a declining trend in the imports for productive inputs as well as machinery and spare parts. This trend was feared to have continued in 1983, although it was alleviated by the aid-related imports. *This is what tended to make the current account look as if it was in balance.* But as the situation worsened, particularly after June 1984, the realities were forced to come to the fore when the regime finally admitted:

> 'Uganda's reliance on external financing increased in 1984, from US $ 32.9 million in 1982 and US $ 36.3 million in 1983 to US $ 52.6 million in 1984, because both the current account and the balance of the medium and long-term capital were in surplus, but these surpluses were outweighed by the deficit on short-term flows and the cash payments made to reduce external arrears'.[39]

This meant that the deficit on the current account had been momentarily covered up by the 'surplus' on the capital account; and the repayments on this capital account 'surplus' had in turn contributed to the very deficits on the short-term flows on the current account!

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[38] Ibid: p. 14.
[39] *Uganda Government: Background to the Budget* .... p. 11.

The above situation is easily explained when we look at the *services and transfer account*. Payments for the imported merchandise were accounted for on the current transactions account. But service charges which included payments for profits made on the external capital inflows, dividends, charges on the use of technology, and interest charges on 'aid', as well as payments for other 'invisibles' such as payments for shipping of exports and imports, insurance charges, etc. were mounting on the services and transfer account. According to the IMF, the 'traditional deficits' on this account were estimated to have 'widened' by US $ 9 million to US $ 84 million in 1982/83. Foreign exchange receipts for sale at Window 2 had totalled US $ 16 million while outflows at Window 1 had amounted to US $ 29 million where such services were paid for at this time. This amount included US $ 16 million 'service costs' for exporting cotton and coffee.

But there was also at the sametime an outflow of US $ 44 million on this account at Window 2, and these sales for 'services' at this window were said by the IMF to have remained 'static' at US $ 43 million in 1983/84, 'given the degree of foreign exchange constraint'.[40] With this 'constraint', it was now decided that services related to exporting of traditional crops and service payments to the oil monopolies, which previously were allocated foreign exchange at Window 1, would from 1984 compete for the 'scarce' foreign exchange at Window 2.

The services account, apart from the official and Bank of Uganda interest payments, was projected to 'respond to the exchange rate changes' and had as a result 'improved' by US $ 28 million to a deficit of only US $ 26 million in 1983/84. Contributing to this deficit were the higher interest charges going to the IMF which, as we saw, came to a total of US $ 43 million in 1983/84. This was an increase from US $ 30 million in 1982/83. In that year also repurchases from the IMF exceeded the purchases and it was this development that had made it necessary to draw down the reserves.

In fact while the illusion of capital account 'surplus' was being maintained, official grants as well as balance-payments 'support' in the form of IMF credit from the three stand-by arrangements were the main sources of 'financing' the deficits. This had given a very false sense of strenght and pride to the regime in thinking that it was doing 'fine'. In fact it was these disbursements against medium and long-term external commitments which were particularly important in 1984 when the net transfer of IMF resources turned negative. It is at point that the reserves that had been built up from 0.7 months of imports in 1981 to 2.5 months in 1983, were run down to 1.7 months by the later half of 1984 to repay the short-term debt which had been contracted by the Coffee Marketing Board and other debts. With 1985 exerting even greater pressure on the balance of payment, the World Bank reckoned that even this low level

[40] IMF: *Uganda: Recent Economic Developments*, January 31, 1984, p. 54.

of reserves would be drawn still further in the first quarter of 1985, which in fact happened, and this occurred as the regime collapsed.

Thus it turns out at the end of the period that what the IMF and World Bank had conceived as measures intended to 'stabilise' the Uganda economy through a package of policy reforms involving 'structural change', while creating some 'flashes in the fire', had brought the country to its feet. The financiers had put in their bills for settlement as the crises came to a crescendo. The whole structure had been maintained on external rescources, a factor that had gone a long way to undermine the economic resonctruction efforts which were desired by the people of Uganda.

TABLE X
BALANCE OF PAYMENTS
(US $ million at current prices)

	1981	1982	1983	Estimated 1984
Merchandise exports	245.5	347.1	367.6	364.8
Merchandise imports	-414.7	-422.0	-428.1	-381.8
Trade balance	-169.2	-74.9	-60.5	-17.0
Services (net)	-86.7	-85.5	-96.9	-58.9
CURRENT ACCOUNT BALANCE	-255.9	-160.4	-157.4	-75.9
Official grant receipts	105.5	90.5	78.9	79.3
Public M & LT loans (net)	38.7	63.9	26.5	68.7
Gross Disbursements	(99.7)	(120.6)	(93.7)	(138.6)
Scheduled Repayments	(-61.0)	(-56.7)	(-67.2)	(-69.9)
Use of IMF credit (net)	132.3	88.3	127.5	-17.2
Other capital items (including change in arrears)	0.4	-48.0	-47.3	-89.3
Change in reserves (- increase)	-21.0	-34.3	-28.2	34.4
Memo items:				
Level of gross reserves at end of year	25.2	59.5	87.7	53.5
Reserves in terms of months' imports (of goods and non-factor services)	0.7	1.7	2.5	1.7

Source: IBRD: *Uganda: Towards Recovery and Prospects for Development*, 1985, p. 11.

What the reform had produced was a consolidation of a regime that had been rejected by the people of Uganda in a rigged election. The financiers had ignored the strong democratic resentment to the regime which was reflected in the almost spontaneous armed resistance fired off by the Uganda Freedom Movement followed by the National Resistance Movement. In deciding to back up the regime, the financiers had hoped that Milton Obote was the only 'experienced' politician who could 'return the country to stability'. In this way they had funded the new army to repress the population while they siphoned off Uganda's resources. The Chief-of-Staff, Oyite Ojok, who was the chairman of the Coffee Marketing Board ensured, that what the financiers left them was used to keep the army going to service the monopolies. But the regime nevertheless collapsed in a *coup d'etat* at the hands of the very repressinfg armed forces that had held it in position. The policy of the IMF and the World Bank had added fuel to the fire. The regime collapsed as the reform measures themselves were increasingly coming into a crisis. It cannot be supposed that these were mere coincidences!

9. THE NATIONAL RESISTANCE MOVEMENT AND THE IMF-WORLD BANK

The UPC-Obote government which had initiated these policies was eventually overthrown by the army in the *second coup d'etat* in July, 1986. The army soon set up a military council supported by a number of civilians. Although attempts were made to engage in 'peace talks' between the council and the National Resistance Movement, which was still fighting in 'the bush', these talks did not lead to any effective agreement and as a result the NRM in turn overthrew the government of the military council on 25th January, 1986.

The NRM, while still pursuing its guerrilla war in the bush had published a *Ten-Point Programme* in which it declared that its basic policy was to build an 'independent, integrated and self-sustaining national economy'. However, faced with the reality of the neo-colonial economy, it found itself face to face with the same problems which the previous regime had also 'inherited'. Still caught up in its leftist rhetoric, it declared an *Interim Economic Programme,* pending a 'comprehensive economic review'. These interim economic measures were announed in June 1986. Under the measures, it announced a set of policies regarding the *exchange rate.* As already noted, the Obote regime had 'unified' the exchange rate at shs. 318 per US dollar in July, 1984. But given the rapid inflation that occurred between July and December, 1984 there was a further depreciation of the shilling to shs. 520 per US dollar. By July, 1985 just before the coup, the shilling had fallen to some 600 to the US dollar. The continued conflict between the NRM and the military council and the dismal economic performance in these six months saw to the shilling falling to its new low of shs. 970 to the dollar in November, 1986 and to shs. 1200 by January, 1985.

Now in June 1986 under the interim measures, the NRM regime established two exchange rates: a priority rate and a market rate. The priority rate was fixed at shs. 1,400 to the

US $ and it was to be used for the importation of 'absolute necessities' for the 'rehabilitation effort', and for 'basic human consumer goods'. The Market rate was fixed at shs. 5,000 to the US $ and it was to be used for other imports and for exports of non-traditional crops. It was also to be used by those people or corporations bringing in foreign exchange into the country.

These measures effectively re-introduced the dual exchange rate system which the IMF-World Bank had strived to abolish after having introduced it in 1981. It carried along with it the contradictions that had already manifested themselves in the previous period. The *first* of these manifest contradictions was the erasing of the previous 'gains' in narrowing the gap between Window one and Window two. As we have seen, this narrowing in fact took the form of Window one moving towards Window two, which in effect meant the officialising of the 'black' exchange rate. The NRM measures merely helped to adjust the economy to the development that had occurred with the overthrow of the UPC-Obote regime and the impact that the NRM's own 'bush war' and 'bush economy' had had on the official economy.

The *second* contradiction was that the increase in the price of coffee to shs. 850 for robusta obscured the fact that this price was much lower than that paid by the Obote regime. At the time of the new policy, robusta coffee was selling at roughly $ 3 per kilo on the world market. Since the new NRM government exchanged this at the market rate before paying to the producers, it obtained shs. 15,000 for each kilo, out of which only shs. 850 was paid to the peasant. The balance of shs. 14,150 went to the government, the CMB, the Unions, the transport enterprises and the cooperatives. At this rate the peasant was being paid less than 6 per cent of the world market price. Even if the government had exchanged the coffee at the priority rate, the peasant would still have received only about 20 per cent of the total price. The NRM thus was participating in the exploitation of the peasant farmer at a much higher rate than all previous tyrannical regimes, despite its moralistic declarations.

The *third* contradiction related to the impact of the measures on the other productive sectors. The increase in the interest rates while to some extent benefiting those who were able to save, at the same time undermined those manufacturing enterprises that wished to invest. The 38 per cent rate of interest was too high for such productive activities including agriculture which also had to bear the same rate of interest. In such a situation it could not be understood how the NRM's much declared 'fundamental change' could have been translated into its policy of building an independent, integrated, and self-sustaining economy with 'forward and backward linkages'.

On the contrary, the imposition of the priority exchange rate on enterprises which produced the 'traditional' export crops in order to enable the state to obtain higher taxes on these crops meant that the regime could not break down this 'pseudo-modern enclave economy' much denounced by the NRM is its Ten-Point-Programme. These exchange rates also ensured that the peasants would still continue to smuggle their produce to neighbouring countries and this would continue to drain resources out of the country that could have been mobilised.

Foreign enterprises were on the other hand given a premium on their transactions. They could convert their 'investments' at the market rate and expatriate their even larger profits through transfer pricing at either the priority rate or the market rate. A foreign investor bringing in say 1 million US $ could convert this at the market rate into 5 billion shillings and with these billions could import priority rate goods worth shillings 3.3 million. Even if these goods were sold on the local market at the priority rate prices (which was unlikely), the investor could reap an immediate profit worth US $ 2.20 million.

But he would more likely sell the bulk of his goods at the market rate prices and in this way reap even higher profits. With these kind of profits the foreign investor could afford to borrow from local banks at the prevailing rates of interest and raise more funds for investment in manufacturing, agriculture, and commerce which an indigeneous investor could not afford. Furthermore with such large returns he could afford to employ local labour cheaply.

These measures had immediately affected the living conditions of the workers and salaried civil servants. Inflation had sky-rocketed meanwhile at the rate of about 200 per cent per annum. The *Weekly Topic*, which was sympathetic to the regime, reported the extremely high price rises on basic food products like *matooke* which had risen from shs. 3,000 a bunch to shs. 10,000 a bunch between February and April 1986. Transport on some routes had risen by 50 per cent, while other essential commodities had in that brief period risen by 100 per cent. A litre of milk which had its price officially fixed at shs. 450 was selling at between shs. 700 to shs. 1,000 on the open market.

These prices were completely out of reach of the ordinary workers whose minimum salary was only shs. 6,000 per month which, at the market exchange rate, was only US $ 1.20. Even a University professor's monthly salary amounted to no more than US $ 20 and this was among the highest salaries in the country. With such a salary structure even a high ranking civil servant found it difficult to pay US $ 2.50 for a bunch of *matooke*, the staple food.

All these developments which went to worsen the economic situation even further clearly indicated that the NRM government was well on the way of being co-opted by the IMF-World Bank syndicate to pursue their discredited policies in the country, which as we shall soon see, were bound to intensify the economic and social crisis in the country. What is surprising to some people is that the NRM, with its 'leftist' rhetoric, found itself such an easy prey to the syndicate's pressures given the apparent fact the NRM had fought a 'peoples war'. But to many who are familiar with the history of the NRM as a movement and of its leaders who were involved in the organisation of the movement, including those who preferred to call themselves 'revolutionaries' or 'pro-people', the rhetoric was just intended to obscure the true basis of the movement and its leaders. The fact that the NRM had won the 'bush war' on the basis of exploiting the ethnic contradictions among the people of Uganda was plain right from the beginning. At the end of the war, its true class character became exposed to a wider cross-section of the population when within six months of its victory, it embarked on an open ethnic war against the rebels in the north and soon thereafter in the east of the country. Its continued 'leftist' rhetoric only went to deceive foreigners, particularly those on the left and social-democrats of Europe, in order to give support to its programme of repression which continued to bedevil the country and to make impossible any genuine efforts at economic development.

Already as part of the preparation to enter into talks with the syndicate for a new understanding, the NRM government had initiated discussions in April, 1986 with the Canadian International Development Agency (CIDA), and the International Development Research Center (IDRC) also of Canada - with a view to requesting them to 'field' an international team of economists, including Ugandans, to 'undertake, as a matter of urgency, an objective policy-oriented study of the economy. This was considered necessary in order to formulate a short-term macro-economic stabilisation policies to lay the ground for the long-term development of Uganda.[41] The Team, which was gathered with speed and their study launched by the president himself on the 17th June 1986, was expected to 'produce realistic policy options on major economic issues' and report back within a month - which it did on July 9, 1986. This clearly indicated a haste on the part of the government to deal with the deteriorating economic situation, but also by the pressures of the syndicate itself which was still on the spot supervising the previous projects funded by them as well as other 'donors'. This haste also revealed the weakness of the NRM as a serious movement of change in the country for it showed that the NRM itself did not have a well thought out programme of economic change in the country.

The haste to convene an international team of advisers also was intended to be a clear signal to the international financiers, if they were worried about the 'leftist' rhetoric, that there were in fact going to be no fundamental changes to the neo-colonial order in the country. These international financiers had already expressed concern at the lack of a 'coherent and comprehensive programme' and policy by the new regime in the Interim Economic Measures which it had adopted as we have seen. The IRDC Team itself expressed this concern on behalf of the financiers when, in their rushed report, they observed of these Interim Measures:

[41] IDRC: *Economic Adjustment and Long-Term Development in Uganda*, Manuscript Report, November 1987, p. 1.

> 'The measures do not .. constitute a coherent and comprehensive policy package which could guide the economy into medium-term. Rather, they comprise a mixed bag of issues, some more important than others, some more urgent than others. Above all, some of the measures are quite inconsistent and contradictory with others'.[42]

The Team pointed out, as an example, the contradictory relationship between the 'priority exchange rate' and the 'market exchange rate', showing the adverse impact the two had on the government budget. Thus as with the previous regime, the real concern of the financiers was the *exchange rate* and this became the central point of the reform which was worked out in the form of a *Rehabilitation and Development Plan: 1987-1991.*

The Rehabilitation Plan had the objective of increasing production of both 'traditional' and 'non-traditional' crops and included a wide range of products in this category in order to reduce over-reliance on coffee. But the budget which was announced two months after the presentation of the plan and the recovery programme, still retained a 50 per cent tax on coffee exports 'initially' hoping to reduce it to 40-45 per cent as non-coffee exports picked-up. This was unlikely however and these projections seemed over-optimistic. The decision therefore of not imposing tax on cotton, tea, and tobacco in order to encourage production here, although well considered, was doomed to failure for the basic reason that peasant incomes from these crops were too low in relation to money prices of their necessities.

In the industrial sector, the recovery programme included eleven 'priority' projects incuding steel, textiles, tobacco, beverages, sugar, cement, salt, phosphates, edible oils and soaps. The idea was to create 'self-sufficiency' in basic consumer goods in a short time. A revolving fund was to be set up with 'aid' contributions to provide foreign exchange to import spares, small machinery and other inputs. In order to deal with the problem of creditworthness of enterprises created by the inflation in the economy, it was decided to encourage industry to 'revalue' their assets in order to give industry an appearance of well-being and encourage banks to extend credit to them!

In this form, the plan became the basis for a concerted campaign to convince external financiers to finance it. This however was dependent on the regime carrying out the required structural adjustment measures which in the meantime had been negotiated with the IMF-World Bank syndicate. This commitment was soon pronounced by the president on May 15 in a hurriedly convened National Resistance Council.

According to the president, the 'lynchpin' of the new policy package was the 'macroeconomic framework' which had been adopted in the medium-term. In order to ensure its 'best success' an agreement was reached with the IMF and World Bank 'on the main elements of this framework. A number of 'features' characterised the package:*first*, the introduction of a *new currency* with a 'higher value' which was to replace the old shilling,

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42 Ibid: pp. 39-40, vii-viii.

which in the president's view, was 'almost worthless'. The change meant that one new 'heavy shilling' would be changed for one hunderd old 'worthless' shillings. This move turned out, as indeed it ought to have been, to have nothing to do with creating a 'higher value' in the new currency, but to 'save the public the invocenience of carrying huge bundles' of this 'almost worthless' currency! It also turned out that the other objective of this 'feature' was to give an opportunity to the regime to impose a new form of tax as we have already noted. This in fact constituted the *second* feature of the package. It was announced that in order to have a 'reduction of liquidity' in the economy, which was estimated at something like shs. 850 billion, the government would impose a *'conversion tax'* of 30 per cent on all conversions from the old to the new currency unit. This was estimated to 'soak up' some shs. 250 billion shillings after meeting the costs of the conversion. The tax was to be imposed on all cash holdings including savings and time deposits of both business and households. It was also to include holders of treasury bills and government stocks held by the public except those in the hands of commercial banks. Commercial bank balances held by the Bank of Uganda were also exluded from the tax. This huge tax imposition was supposed to reduce inflation in the economy, apart from 'soaking liquidity' in the economy.The *third* feature of the new package, as announced by the president, included a set of policies which in addition to the conversion tax, were meant to *'fight inflation'* which might further arise from the measures themselves. These policies included the pursuance of 'tight monetary and fiscal policies' which had the effect of making even more deflationary the above 'features'. The president admitted that the conversion tax would have a 'dampening effect' on the price levels which would be 'recessionary to some extent'. If then this was the effect of the package how could the regime then announce that the policies were intended to bring about economic reconstruction and development?

Indeed the additional 'tight monetary and fiscal policies', which were now being spelt out, went to arrest any possible elements of 'growth' in the economy since these measures assumed a high level of 'demand' in the economy which was in fact superficial The hope that the 'tight' measures would help strengthen the tax revenues of the state and 'broaden' it eventually, was dashed right from the very beginning. Strict expenditure controls, which the regime hoped it would enforce with its puritannical moral utterances, also were impossible in such a situation. Indeed soon within three months of the package, the country's Inspector of Government announced the highly embedded embezzlement that was taking place in all the ministries of government-singling out the Ministry of Defence under the president's own portfolio as the worst offender! This situation was bound to continue to escalate with the war widening in the north and east of the country. But the package was also contradictory for the *fourth* feature of the package seemed to undo these 'anti-inflationary effects'. It was announced that in order to help the civil servants in the new situation, where consumer prices were bound to increase, there would be an 'immediate' increase in their salaries by 100 per cent. In the same breath, it was also announced that there would be a 300-500 per cent increase in the producer prices to the peasants on the four major export cash crops - coffee, cotton, tobacco, and tea. In fact these went up by only 150-400 per cent as is shown in Table XI below. The prices of cocoa, beans, maize, simsim, ground nuts, and soyabeans were not immediately announced. These were expected to be reviewed and then announced at a later date.

TABLE XI

PRICES OF MAJOR EXPORTS CROPS MAY 1987

Crop	Old prices in old shs.	New prices in old shs.	New price in new shs.	% increase
Coffee:				
(a) Arabica:	1,550	4,000	40	158
(b) Robusta:	850	2,400	24	182
Cotton:				
(AR):	400	1,900	19	375
(BR)	200	1,000	10	400
Tobacco:				
(Flue-cured):	1,000	3,800	38	380
(Fire-cured):	700	2,500	25	257
Tea:	140	500	5	257

Source: Authors computation

In looking at these inceases, it should be noted that as far as the workers salaries and wages were concerned, the last salary increase was in October 1986, as we saw, and this amounted to 500 per cent. A doubling of this meant increasing their salaries by 1000 per cent in eighteen months upto that point. The new doubling brought up the increases to 2000 per cent in two years! For the peasant producers, their prices had been 'doubled' in May 1986. Under the new measures they were 'more than doubled'. The point is that these 'increases' were all being 'eaten up' by something else and to explain this phenomenon, the fifth feature came as an automatic follow up to the game.

Under the *fifth* feature, in order to seal the package in this aspect, it became necessary to undermine these salary and producer price increases and this was achieved by the known mechanism of a currency *devaluation*. Indeed this was the very purpose of the financial package as we saw in the earlier IMF measures. According to the president:

> 'In order to permit (sic!) payment of the above producer prices and to achieve an acceptable budget performance (sic!!), Government has taken the decision to institute a new exchange rate of the Uganda shilling vis-a-vis the US dollar. This will be New Uganda shillings 60 to one US dollar'.[43]

This was indeed a major devaluation of the new currency unit which was bound to have an *immediate* depreciation of the 'heaviness' of the new currency unit even further. The World Bank announced that this amounted to a 76.6 per cent devaluation. The depreciation was in fact larger. The old currency exchange rate had been fixed at shs. 1,000 to the US dollar in July 1986. The new rate of shs. 60 to the dollar was equivalent to a devaluation to shs. 6,000 in the old currency unit and this constituted an actual depreciation in the price of labour by 330 per cent and not 76.6 per cent. This then constituted a *halving* of the wage of the worker, everything being equal. His old wage of shs. 15,000 old shillings was 'doubled' to shs. 300 new shillings (30,000 old shs.).But this was now reduced by a new 'purchasing power' at the new exchange rate of 300:60 in place of the old 15,000:1,400 = 5:1 as against 10.7:1. This meant labour power was now being exploited at twice the level which existed under the old currency unit! If we look at robusta coffee which provides the bulk of the exports, an increase of 182 per cent was still *short* of recovery of the situation under the old exchange rate-for it would have required an increase of more than 200 per cent in the producer price for the peasant producer to 'walk while remaining at the same place'.

The situation was of course brought to clear light when the prices of consumer products reacted to the currency devaluation. Even before they could do so, the president announced as part of the package an increase 'with immediate effect' in the prices of the basic consumer goods such as sugar, salt, kerosene, etc.Having done its job, IMF and World Bank then dolled out their 'aid' in the form of *structural adjustment facility* and a *compensatory finance facility* as well as an *economic recovery credit arrangement* totaling some US $ 180 mil. Some of the funds went to existing projects under previous arrangements. It was now left to the regime with its militarist-populist rhetoric to make the country swallow the new stronger medicine. The regime started by trying to convince the population that the new package was 'better' than the old one. According to the president:

> 'Unlike the past, we have not entered into any stand-by agreement. This choise has been dictated (sic!) by the fact that the above two facilities, unlike the stand-by, are low conditionality, with low interest charge charges and with long grace periods'.[44]

But the low conditionality had nothing to do with low interest charges and long grace periods. If this was the issue, then the three IDA Reconstruction Credits given during the UNLF-Obote

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[43] Museveni, Y.: *Economic Policy Package for Reconstruction and Development*, Kampala, May, 1987.
[44] Ibid.

period were 'low conditionality'. But we have in fact showed that even these so-called 'soft loans' were hardened' with imposition of *tranches* the moment the Obote regime assumed power and they were 'conditionalled' by attaching performance criteria to each release of the *tranches*. The so-called 'low conditionality' under the NRM does not hold water for the first devastating conditionality imposed under the new package was the very heavy devaluation of the old shilling accompanied by a conversion tax. With these conditions the syndicate had obtained all they could have demanded in a detailed performance stand-by arrangement: a devaluation, a lowering in wages and salaries, a lowering of borrowing by the state from the Bank of Uganda by providing it with shs. 250 billion in conversion tax-much higher than the previous currency auction profits! - and the reduction of the civil service numbers which the Obote regime had failed to accomplish but which the NRM took as its first task!

The after effects of these measures were to be even more devastating than those imposed under the three stand-by arrangements under the Obote regime. In short, the IMF and the World Bank had done better with a 'pro-people' government than with the politically weak and corrupt Obote regime! Furthermore, the structural adjustment facility was the latest stand-by form imposed by Reagan's secretary of the treasury, Baker III in 1986 for such debt ridden countries like Uganda but which had to accept even tougher adjustment policies that were implied under the formal stand-by arrangements in their social and economic effects given the rather weak economic structure faced by this kind of country. These measures had the same effect, if not worse, than those imposed under the stand-by arrangements. The IDRC Team in their report had observed that there were 'doubts' that the IMF saw the structural adjustment facility as being of lower conditionality than those applicable to concessional assistance. The IMF also had advised that 'it would be much easier for Uganda to obtain this facility than to obtain a stand-by arrangement'.[45] The Team then concluded that although the stand-by arrangement would have yielded more funds, it would have been difficult 'to absorb' the funds.[46] Indeed the real issue here is not whether the 'conditionality' is low or high in the technical analysis but *the actual effects the policies have on the specific community*. The attempt by the regime to boast of having obtained 'low conditionality' funding will not do!

The announced package also alluded to the holding of the Paris Club of financiers in June, 1987 to consider the programme with a view to raising additional funds to meet the $ 2,000 million which the regime wanted in addition to the rescheduling of the $ 2,000 million external debt which the country had accumulated. At the conference itself, the regime was rewarded with a much larger 'pledge' by the financiers than it had expected. A pledge of $ 308 million was made although the regime expected $ 250 million at this stage. The 'socialist' countries also announced they would reschedule $ 45 million of debt, while Britain advanced

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[45] IDRC: op cit. p. 66.
[46] Ibid: p. 87.

an immediate $ 41 million 'for the purchase of British goods'.[47] Altogether $ 126 million was rescheduled.[48]

11. ECONOMIC PERFORMANCE OF THE NRM PROGRAMMES

According to informed sources within the regime, the programmes adopted by the NRM with the IMF and the World Bank were not the result of any real negotiations, as was also the case with the programme adopted by the UPC administration in 1981. There was no agreed framework to present to the IMF. The 'negotiating authority' included individuals who had each a model of his own. According to these sources, the IMF thereupon 'dismissed these positions and presented its own model' upon which 'the authority' had 'little to comment'. Thus the package that was announced on May 15, 1987 was, according to these sources, 'essentially an IMF exclusive affair; even the memorandum of understanding, which should have been hammered by the two sides, was almost wholly prepared by the Fund team'.[49]

Thus despite the leftist rhetoric, the NRM had been as subservient as the UPC had been in 1981 in accepting the pressures from the IMF. When it came to implementing the programme however the regime tried to distance itself from some of the prescriptions of the IMF in the letter of understanding. A budget that followed to implement the programme proved inconsistent with the package. These measures angered the IMF which refused to release the funds. The result was that the Uganda 'negotiating team' was called over to Washington to explain the descrepancies and, again as before, the IMF forced its hand and changed the budget which was telexed to Kampala for implementation. This 'telex budget', as it has come to be known, re-instated the main outline of the package to stabilise the economic system through a series of financial measures including further credit squeezes.

However in the first year of the programme, the IMF acknowledged that the programme had been a failure. Although real GDP was reported to have grown by 7.6 per cent in 1987/88, the programme had within six months 'gone off course'. The government failed to bring about financial stabilisation owing to 'excessive credit expansion' to both the government and private sectors. Government credit expansion was, according to the IMF, caused by an 'unbudgeted expenditure' through the development budget but which went to the defense expenditure to quell the rebellion in the North and North-East of the country. According to the World Bank 43 per cent of the budgeted funds had gone to defense and internal security. This brought about a deficit which was financed from the debt rescheduled funds.

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[47] *Financial Times*, London, July 16, 1987.

[48] *The International Herald Tribune*, June 20-21, 1987.

[49] Mugyenyi, J.: IMF Conditionality and Structural Adjustment under the NRM in Uganda, Mimeo, September, 1989, p. 11.

According to the British Economic Intelligence Unit, the failure also arose out of the narrow base of the economy with over-reliance on coffee exports. The export earnings from coffee had fallen short of the projected results. This decline in coffee earnings had also affected the expected inflow of external finance.[50] To make matters worse, the government decided to reduce interest rates by 50 per cent which had the effect of increasing credit to the private sector as well. Among the problems of the period was the unexpected expenditure of hosting the PTA conference in Kampala in November, 1987. The result of this policy failure was a rapid increase in inflation which was reported to be hovering at 240 per cent per annum which had in turn in such a short time resulted in the 'overvaluation' of the shilling so soon after the currency reform and currency devaluation of May 1987.

In March 1988, the IMF and World Bank came heavily on the regime to 'get back on track'. Draconian measures were announced to this end. The 1988/89 Budget contained these measures: Interest rates were raised to between 30-40 per cent; the Uganda shilling was devalued by a further massive 150 per cent in real terms from USh. 60 to U Sh. 150 to the US $; a reduction of government debt with the banks and other tight monetary measures. These measures were again accompanied with some 'carrot' palliatives which included an increase in producer prices to the peasant farmers. These new steps were undertaken with the background of a new IMF revised, *IMF Policy Framework Paper (1988/1989-1990/91)* under which the government negotiated the second-year Structural Adjustment Facility amounting to SDR 29.9 million.

In the event, the IMF had something to cheer about with this policy tightening. The government announced that during the following six months, it was 'successful' in tightening control over recurrent expenditure which 'offset' significant shortfalls in revenue and external funding. Of particular significance was the 'sharp decline in inflation' between August 1988 and January 1989 when the average increase in consumer prices for the middle-income groups remained below 1 per cent per month. In fact this 'succes' was achieved at great cost. There was a sharp slump in industrial activity with the production index falling by 25 per cent so that by October 1988 industrial production had reverted to its March 1987 levels. Furthermore, the 'success' was induced by the refusal by government to honour its cheques to the civil servants who went for months without pay. All payments which had been approved by June 1988 were cancelled and it is this which artificially reduced the CPI for the middle income groups as indicated above creating an artificial relative market abundance of goods, and an artificial budget balance. Furthermore, coffee purchases were reduced which led to a pile up in the CMB stores and village storages. However, this success encouraged the government to take further measures in December 1988, when it devalued the Uganda shilling further from 150 to U Sh.

[50] Economic Intelligence Country Report, March, 1988.

165 to the US $ as well as raising the price of petroleum by 30 per cent. In addition, the government introduced the Special Import Programme (SIP 1) which broadened ths scope of the Open General Licence (OGL) to include agricultural and industrial inputs on the basis of 'first come first serve'.

The IMF and the World Bank were encouraged by these developments of another possible 'success story' and in September 1988, they organised another funding conference at which some $ 550 million was pledged by both bilateral and multilateral agencies. In order to ensure that there would be no return to financial indiscipline, the IMF tied these new funds to an *Enhanced Structural Adjustment Facility*(-ESAF) which was aimed at accelarating the reforms towards stabilisation and the measures contained in the *Policy Framework Paper 1988/89-1990/91*. These measures appended to the ESAF turned out to be carrying a much higher conditionality than the previous facility. The deal was struck in March 1989 and included the further devaluation of the Uganda shilling from USh. 165 to U Sh. 200 to the US $; an increase of 10 points on commercial lending rates and 5 per cent points on minimum deposit rates; an increase in customs duty and retail prices of petroleum products of 30 per cent once more, as well as the extension of the 100 per cent retention scheme to all non-traditional and non-coffee exports. It was on these conditions that the IMF released its 3-years ESAF equivalent of SDR 179.3 million, or 180 per cent of Uganda's IMF quota. The World Bank also approved a supplementary credit of US $ 25 million to the *First Economic Recovery Credit* on April 21, 1989.

But the real problems in the Uganda economy could not be steam-rolled beyond limits. Soon the problems which had been ignored in the previous 'successful' implementation surfaced with a vengeance which in their trail wiped off the previous gains. The first was the problem of *crop finance* for coffee purchases. By the end of December 1988, it was clear that the farmers could not acept the non-payment for their coffee which had been delivered to the CMB and the issue was becoming a political one as well as economic: 'political because the government wanted to be seen to be responding to the farmers' needs, and economic because farmers were gradually losing interest in coffee growing and were switching to other crops'.[51] Because the CMB did not have the capacity nor the money to pay for and collect the crop efficiently, and since the commercial banks also were dried of deposits and liquidity due to negative rates of interest on deposits and credit control, the government itself decided to resort to the Bank of Uganda to print the necessary currency to pay to the farmers. This amounted to an unlimited draft to the CMB which soon built up from U Shs. 6.8 billion in December 1988 to U Shs. 20.1 billion in May 1989. By mid-1989 credit to the domestic sector had increased to U Shs. 41.5 billion which exceeded bank deposits. Much of this credit to the private sector was

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[51] Mugyenyi, J.: op cit. p. 13.

a multiplication of the funds from the coffee sales and this had created a second problem of money supply expansion. These purchases were further complicated by the fact that they were not matched by coffee shipments nor foreign exchange earnings. Most of it went to bartering deals.

This performance in the last half of the 1988/89 fiscal year was therefore dismal. The large increase in coffee sales was now seen as having had a negative impact on the economy. There was a resurgence of inflation which had the effect of further depreciating the *kibanda* parallel exchange rate. In addition there was a shortfall once more in coffee revenue collection efforts as well as a cut back on foreign exchange allocations. The March 1989 measures were seen as having been 'inadequate' in boosting fiscal revenue to the government, slowing down credit expansion and reducing inflation.

Additional measures were devised again and implemented in October 1989 and these included the further devaluation of the Uganda shilling from U Shs. 200 to U Shs. 340 per US $. This was followed again with a further devaluation in November from U Shs. 340 to U Shs. 375, bringing the devaluation in nominal terms of over 600 per cent since May 1987. This bleak picture of the economic performance was made a little 'brighter' by the implementation of the second Special Import Programme (SIP II), amounting to US $ 400 million for imports at a special exchange rate of UShs. 400 to the US $ in June 1989 when the official exchange rate stood at U Shs. 200 to the US $ which in effect amounted to a devaluation of 100 per cent in nominal terms as of June for the commodities imported under the SIP. This also had enabled the government to have 'a large budget' from this 'wind fall' at a time of declining tax revenue from coffee.

The situation had of course been made worse by the collapse of the International Coffee Agreement in July 1989 under which Uganda had a quota. The collapse had led to a reduction of Uganda's coffee earnings of between 50-30 per cent for rubusta coffee which accounted for 80 per cent of Uganda's coffee exports. Uganda's budget estimates of US $ 264.3 million from coffee exports were now reduced to US $ 150 million leading to a number of donors suspending their loans to the country as Uganda began to fail to service its rescheduled debt now amounting to US $ 1.6 billion. Uganda was on the brink of bankruptcy as the African Development Bank to which Uganda owed 10 per cent of its external debt began to cancel its loan commitments.

Thus far from stabilising the economy, the IMF policies and the World Bank structural adjustment reforms, which included institutional re-organisation towards 'privatisation', had produced a stalemate in the economy. The 'supply side' effects which were supposed to arise from the World Bank economic recovery measures also stalled. The impact of the only remaining export crop-coffee on the whole economy had now turned negative as we saw. Coffee farmers were the worst exploited in that their earnings were subjected to a very high rate of taxation. As we saw, coffee exports had been excluded from Window 2 transactions of the exchange rate under the UPC government. This continued to be the case under the NRM government. Now the NRM compounded the injustice by restricting the 100 per cent export retention scheme to all *but* the coffee farmers. This scheme had enabled the farmers of the other crops to retain the foreign exchange earned by them instead of surrendering it to the authorities. In the words of the government itself:

> 'The beneficiaries of the retention scheme are allowed to import the equivalent amount of goods for their own operations or for sale. Since the domestic selling prices of the imports in question are not controlled, the exporter effectively receives the market determined exchange rate for his exports.[52]

The retention scheme was therefore being used not to improve the productive sectors but to heap foreign exchange premia on the beneficiaries which fuelled the *kibanda* exchange rate. The government itself admits this much when it states that due to the lack of adjustment of the official exchange rate in the face of accelerating inflation in the latter part of 1988/89, the earnings from the retention scheme gave a premium via-a-vis the parallel market which rose from 60 per cent in that period to 180 per cent by September 1989. 'This together with the sharp decline in coffee prices following the collapse of the ICA, led to a virtual drying up of tax revenues from coffee'.[53] It should be remembered that in June 1989, the regime had extended the SIP-II at double the official exchange rate which had also added to the depreciation of the currency and it is this which explains the October devaluation of the exchange rate to U Shs. 340 to the US $. The expectation that this SIP-II rate would merge with the official rate when the later reached 400 through monthly adjustments was tantamount to admitting that the government was engaged in a non-winnable battle of adjustment to the galloping unofficial rate because when in November 1989, the official exchange rate was adjusted to U Shs. 375 to the US $, the *kibanda* rate had already distanced itself to a good U Shs. 735 to the US $. The expectation that this upward adjustment would enable tax revenues from coffee 'to assume again their lost importance', was therefore near to an illusion.

This was even more so when the regime itself also admitted that the retention scheme was ineffective to promote exports: 'the 100 per cent export retention scheme, with its dual licencing requirements and lack of transparancy with regard to the realistic price of foreign exchange, is an inefficient instrument for promoting exports'.[54] Elsewhere however, they compound their confusion of policy when they declare the effectiveness of the instrument. Thus with no real incentives for the coffee producers and the non-coffee exporters, it appeared that

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[52] Uganda Government: Uganda: A Review of the Economic Recovery Program. A Report Prepared for the Consultative Group Meeting for Uganda, November 30-December 1, 1989. p

[53] *Ibid*: p. 27

[54] *Ibid*: p. 33.

notwithstanding the bartering deals, Uganda had come full circle to becoming non-productive as the productivity of the major export and food products began to show negative returns with declining returns for every additional acreage of production. The drive to encourage non-traditional crop production proved difficult as the barter deals began to drain products from peasant producers and as food security became threatened. Threatened armed resistance to the regime in Mpigi district cited the draining of the country of food products through barter deals as one of the reasons.

This left the country exposed to external donors for any kind of economic activity in the country and for the maintenance of the regime in power as it increasingly became clear that the financing of deficit budgets which went to the armed forces was coming from loans to the government from external sources and from government borrowing internally. This is why the regime began to emphasize external funding as vital to its existence. The foreign funding gap of $ 43 million had been bridged by a concessional loan from Libya for the year 1989. For 1990 and 1991, the regime expected other donors to fill this gap of $ 900 million in 1990 and $ 980 for 1991 for imports support now that coffee earnings were precarious. But the country still was faced with a debt-service bill of $ 170 million for these years as well as an oil import bill of $ 70 million annually. Including all the outgoings, the total financing requirements for the country amounted to $ 1.11 billion for 1990 and $ 1.18 billion in 1991. Total export earnings were projected at $ 300 million and $ 350 million respectively. In these circumstances the regime's appeal below is understandable:

> 'The Government's efforts to sustain the Economic Recovery Program and deepen economic reforms need the support of the donor community. This support is all the more critical in view of the sharp decline in coffee prices and the resulting financing gap.[55]

With nothing to show for the external funding that had been made ever since the NRM came to power except a few roads and hotels rehabilitation, there was in fact no prospect that these large amounts of external funding requested for 1990 and 1991 would show any results at all except a continued strife and economic decline down the road. To make matters worse, the debt to foreigners was now, under IMF directive, to be 'counted' as government revenue. From March 1989 under the conditionality of ESAF all external debts that fell due but which were not paid due to shortage of foreign exchange must be 'debited' to the Uganda government. This debit then appears as government 'revenue'. It is for this technique that credit to the Uganda government rose in this period from Shs. 9 billion to Shs. 38 billion in a period of only six months. If this strategem had not been used, government credit would have fallen to

[55] Suruma, E.: Credit Policy in Uganda, 1987-1989, Mimeo delivered at a Seminar on the Uganda Economy, Kampala, Dec. 12-16, 1989, p. 10.

Shs. 2.7 billion in September 1989. By this device government borrowing from banks was eliminated and therefore the governments Ways and Means powers were now reduced to accountability to the foreign financiers through the IMF. A patriotic Ugandan working for the Bank of Uganda in a Seminar paper on the Uganda economy noted:

> 'It highlights that external debts are strangling not only foreign exchange availability but domestic activity as well. And it raises the issue of whether external debt should be alowed to strangle domestic expenditure so fantastically especially when it clearly cannot be paid.[56]

The writer also questions the extent to which forced government saving through the inflationary budget, such as that which brought about the so-called infrastructural rehabilitation, could be said to be beneficial to the economy when it at the same time adds to the inflation which stifles domestic savings because of the low return on domestic money. This is the crux of the matter.

This stifling of local energies is attested to by the IMF and World Bank own admissions that during the period of stabilisation and structural adjustment, poverty and hardship had increased among the majority of the population. For this reason the two multilateral institutions had recommended the creation of a special *Programme to Alleviate Poverty and the Social Costs of Adjustment* (PAPSCA). This programme was put to the 'donors' for consideration between November 30 and December 1, 1989 at a special funding conference in Pais. This meeting had reviewed Uganda's performance under the IMF-World Bank policies and had 'commended the government for the economic growth rate it had achieved over the past two years' and for 'successes in rehabilitating infrastructure'.[57] Yet it approved the PAPSCA at the same time for a three to four year period to alleviate the poverty which had been created under the performance.

Is this not sufficient signal that when foreign capital and demands so utterly undermine peoples productive capacities, its usefulness has to be questioned? The ten years of IMF and World Bank tutelage of the Uganda economy had not only worsened an already weakened economy which existed in 1979, it had excerbated the weaknesses even further to the breaking point. Ugandans have to say: THAT IS ENOUGH.

CONCLUSION

This analysis has clearly shown that the performance of the Uganda economy which has continually been subjected to external pressures supervised by the IMF-World Bank, has

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[56] Ibid

[57] *Weekly Topic, December 6, 1989.*

become worse and worse with the passage of time. The perpetual pressure to devalue the Uganda currency is not the cause of this worsening economic situation. It merely expresses the ever increasing exploitation of the direct producers of Uganda: the workers and the peasants: the real producers of wealth in the country. The devaluation has been a mechanism for enhancing this exploitation. This clearly cannot be sustained without destroying this very productive power itself which this financial parasitism implies.

Steps must be taken to reverse this situation. This must start with the real factors that can enable the people of Uganda to regain their strength which was taken away from them by the colonial system. This means that the people must organise to regain this *political* initiative by intensifying the struggle for democracy at both a national and grass-root levels. National unity must be matched by democracy at all levels. To achieve this, *militarism* must be combated. There can be no democracy or grass-root participation by the people which is presided over by military cliques which divide the people along ethnic and regionalist lines. The development of a national democratic movement which seeks to unite the people while at the same time creating conditions for the diversity of the country to thrive is a precondition to such a new situation.

A new economic programme must start from this political basis. Such a programme must draw from the actual experiences of the people in tackling the worsening economic situation. Positive elements which have appeared from time to time to combat the crisis must be examined seriously and lessons drawn from them. Additional steps must be taken to strengthen these forces which seek the development of those economic forces that meet the actual needs of the people of Uganda. All attempts at imposing solutions from outside must be resisted. This does not mean Uganda detaching itself from the world economy. It merely means that the world economy must itself start from the recognition that peoples needs and the needs of their environment come first not only in Uganda but in all parts of the world. This means Uganda taking a global approach while empasing local human and environmental needs of the country.

ıfrican Studies Centre, Wassenaarseweg 52, 2333 AK Leiden, The Netherlands.