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Uganda's Experience With Aid

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This paper presents Uganda's experience with aid flows over the period 1970–96. It discusses the compilation of aid data and also reviews the chronological developments in aid flows to Uganda. Over this period, the sectoral distribution and type of aid is largely dictated by the government's economic programmes in place. The period 1962–71 largely reflects government borrowing for on-lending to agriculture and industry whereas the period 1979–85 shows a wider range of sector-specific programmes driven by the need to reconstruct and rehabilitate the economy. Although the need to reconstruct and rehabilate the economy continued, support for policy reform began to take up an increasing proportion of aid over the period 1987–96. We also analyse the impact of aid on some major macroeconomic variables and find that investment and real exchange rate developments have been largely driven by official development aid flows. Although we find a similar relationship between aid and improved policy environment, the findings show that in the latter part, i.e., 1992–6, the continued policy reform was driven more by ownership of the programme than by aid. Indeed, in this latter period, the aid/GDP ratios declined. The major lesson drawn from this study is that ownership of a reform programme is more critical for its success, hence our conclusion that aid should be used for financing rather than buying reforms.

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1. Introduction

In the immediate post-independence era, the economic focus of the new African governments was to increase the phase of growth and development. This had to be funded through increased investment, which meant that savings had to increase. Unfortunately for a number of independent African countries, the level of savings was far below that needed to meet the desired investment levels, which meant that the savings–investment gap had to be financed from foreign sources. Consequently, the current account balances of most African countries have been in deficit mainly as a result of this phenomenon and this has continued to be observed even under the improved macroeconomic policies under the enhanced structural adjustment facility (ESAF). In real terms, ODA flows to Sub-Saharan African (SSA) countries recorded a nominal growth of 6.7% per annum over the period 1974–84, 4.9% p.a. in 1984–9 and 2.4% p.a. during the 1990s. The growth rates have been on a declining trend since the 1970s and this therefore raises the issue of whether aid is a sustainable source of finance for development. A related issue is the historical role of aid in the macroeconomic performance patterns experienced in SSA.

This paper presents a case study of Uganda in relation to ODA flows, and in Section 2 we briefly discuss the sources of the aid data. Section 3 presents a chronological review and background information with specific relation to aid pledges, commitments, its utilisation and sectoral distribution. In Section 4, a descriptive account of the evolution of the external debt and its policy is presented. In Section 5, results of quantitative analysis of the impact of aid on some major macroeconomic variables are discussed. Issues pertaining to ownership of aid activities with particular view of integrating them to national budgets and plans are contained in Section 6. Our views concerning the aid and reform relationship are discussed in this section, and in Section 7 we present conclusions.

2. Aid Data of Uganda

The External Aid Coordination Department in the Ministry of Finance and Economic Development has a central role in the management and coordination of the aid resources for Uganda. They maintain a database on external aid to Uganda, including commitments, aid terms, disbursement and the sectors receiving the assistance. Whilst the

Aid Data Unit has been collecting this kind of information for several years, there has not been a regular publication of aid statistics by this department.

The process of monitoring donor flows from the level of pledges, commitments, disbursements and actual utilisation is naturally a tricky one and continues to be plagued by a number of technical and institutional problems. These problems are related to the overall process of aid acquisition, aid conditionalities and the inherent objectives of giving aid by the donors. The Aid Data Unit (ADU) recently hired two consultants to review the aid management/disbursement process and further advise on how best to capture comprehensive information on foreign aid. Particular problems still exist regarding the final use of the external resources received. Information regarding the proportion of the project aid spent on project imports, local expenditure and service input remains incomplete. This is largely because of the limited submission of returns from the project co-ordinators and some donors to the ADU of the Ministry of Finance, Planning and Economic Development. Well aware of these problems, we have used the aid data for lack of alternative sources to assess the experience of Uganda with regard to aid flows. We believe that the data gaps will not massively distort our analysis.

3. Chronological Review and Background Information on ODA Flows to Uganda

3.1 Introduction

External assistance plays a very important role in Uganda. That donor assistance currently accounts for about 65% of the budget outlays, and in the current decade has averaged over 14% of GDP per year, suggests the important role it is playing in filling the existing savings–investment gap in Uganda. With the low levels of GDP and per capita GDP currently obtaining in Uganda, it would appear that the contribution of aid to Uganda's development is still required at least for the foreseeable future.

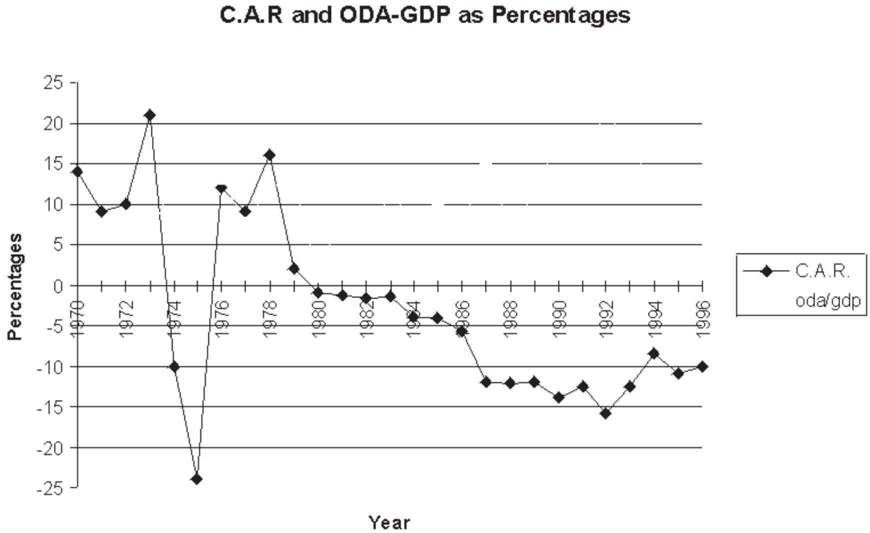
The developments in the ODA flows since independence are seen to have been dictated by a number of factors ranging from the post-colonial assistance to the current ESAF and its related inflows. In the immediate post-independence era, assistance from the UK to the new government was largely to support British interests in Uganda. The extent of this is seen in the currency composition of the long-term debt whereby in 1970 the UK pound sterling (£ sterling)-denominated debt accounted for 73.3% of the total long-term debt outstanding (LDO) while the US dollar-related debt accounted for only 6.9% of the LDO. However, owing to the increased dollarisation of the global economy and the weakening ties that the then political regime created with the British government, by 1980 this composition had entirely changed. The £ sterling composition declined to only 20.4% while that of the dollar had increased to 43.8%. In the 1980s, the role of the International Monetary Fund (IMF) and the World Bank in contributing to aid flows to Uganda significantly rose and this appears to have increased the composition of the US$ in the LDO, such that by 1996 the share of the European currencies was 8% while that of the US$ was about 33%, and the share of Special Drawing Rights (SDR) was 58.6%.

Another factor that determined the magnitude of ODA flows was the size of the trade account gap. In the 1960s this gap was narrow, reflecting the close matching of export receipts to import needs associated with quite respectable growth rates. In the circumstances, little ODA assistance was required. Figure 1 plots the relationship between the trade account balance and ODA flows as a percentage of GDP. The picture changed in the 1970s, in that although the exports almost matched imports, the Ugandan economy suffered from very low or negative growth rates. Imports were artificially constrained by an elaborately administered network for handling foreign trade. In addition, the country suffered from capital flight during the period (Olopeonia, 1996).

Associated with the above, Uganda pursued suboptimal policies for most of the 1970s. In particular, the exchange rate was kept at a highly overvalued rate. This encouraged outward smuggling of exports. The problem reached its peak during the period of the coffee boom of 1976–7, when substantial quantities of coffee were smuggled to neighbouring countries, thereby denying Uganda any major benefits. It has at times been argued that suboptimal policies result in reallocation of benefits from the state directly to the nationals. In fact, Uganda received a compensatory financing facility amounting to US$191 million and a balance of payment support facility totalling US$4.55 million in the middle of a coffee boom.

At a more general level, the terms of trade began to deteriorate in a number of countries during the early 1970s, creating a need for ODA support to sustain current financing of imports at a fixed exchange

Figure 1: *C.A.R. — current account — GDP Ratio*



rate. The terms of trade shock worsened Uganda's external viability. Unfortunately, it is difficult to use official statistics to fully assess the emerging financing gaps as imports were constrained by administrative mechanisms. Uganda managed to attract some donor support at the time but was unable to sustain a high economic growth rate, which may be associated with either the failure to put to good use the financing or simply the poor policy environment which existed at that time. In addition, Uganda compares unfavourably with her immediate neighbour Kenya, which was able to attract substantial ODA support during the 1970s and sustain a high economic growth rate.

In some of the earlier publications, prominence was given to the political regime at the time as the major constraining factor as it did not appeal to most multilateral financial institutions and Western donors. However, further scrutiny of developments at the time reveals that the highly distorted macroeconomic framework in the 1970s was another equally strong factor discouraging strong donor support. A policy lesson from this experience is that a hostile domestic environment keeps away potential financial support and constrains aid effectiveness, in addition to encouraging malpractices such as capital flight and outward smuggling of exports.

Comparing the 1970s to the subsequent period is quite difficult since the economy at that time was contracting. Therefore, there was a tendency to magnify ratios relative to GDP. It was for this reason that the ODA flows to GDP ratio averaged about 10.8% between 1973 and 1979, with peaks of 13% in both 1976 and 1979. This period was followed by a drastic drop in ODA flows to about 1% of GDP in 1980, largely reflecting the political uncertainty in the transition from the Amin era. Following the election of Obote, there was a dramatic turn around in the rate of growth of ODA flows. With the IMF and the World Bank to the forefront of support for the stabilisation and rehabilitation programme that was announced in 1981, substantial amounts of ODA began to flow. The aid objective was to stabilise and restart growth in the economy. Consequently, the amount of ODA directed towards the rehabilitation of agriculture and industry was quite substantial, as was the amount of ODA flows towards supporting economic policy.

The financial support was directed towards financing imports categorised as essential consumer goods, such as petroleum products, and intermediate goods in order to increase the capacity utilisation of some selected industries. In addition, there was increased use of supplier's credit guaranteed by the government to supplement official financing.

During the period 1981–6, ODA flows expressed as a ratio of GDP fluctuated between 7 and 11%, with the peak of 11% recorded in 1983. Apart from the political change referred to above, the period 1981–4 is associated with the implementation of the first standby arrangement supported by the IMF (Kasekende and Atingi-Ego, 1997). The period 1986–96 is unique in the recent economic history of Uganda. Firstly, the period has been associated with marked improvement in economic management of the economy. Growth rates averaged about 6.5% over the 10 year period and the government implemented bold measures aimed at promoting price stability consistent with sustainable economic growth. Secondly, the period has been associated with relative political stability.

In support of the serious efforts by the government to re-build the economy, donor flows to Uganda were quite strong in the period 1986–96. Expressed as a ratio of GDP, ODA flows averaged about 13.4%, comparing favourably with an average of about 9% in the period 1982–5.

3.2 Consultative Group (CG) Pledges

Reliable data on consultative group pledges to Uganda have been

Table 1: *Consultative Group Meeting: Pledges ($ million)*

	1992–3	1993–4	1994–5	1995–6	1996–7	Total
Multilateral	529	553	552	517	404	2554
Of which IDA	227	226	105	150	220	928
Of which IMF	0	0	169	0	0	168
Bilateral	301	274	274	306	343	1498
Total	830	826	826	823	747	4052

Source: Research Department, Bank of Uganda.

assembled for the period 1992–3 to 1996–7 and are presented in Table 1. The pledges include both loans by multilateral agencies, and loans and grants by bilateral sources to cover project aid, import support, debt service, and specific programme assistance such as food aid.

The figures indicate that, over the 5 year period since 1992–3, Uganda received pledges at CG meetings amounting to $4,051.9 million. Of this amount $2,554.1 million, representing 63% of the pledges, originated from the multilateral donors. The multilateral donors maintained their share in the total pledges at over 60% for the 4 year period up to 1995–6. In 1996–7, the share dropped to 54%, in part reflecting the non-inclusion of any financing from the IMF. In that year, the total pledges dropped from an average of $826 million per CG to $747.0 million.

The World Bank group has largely dominated the pledges to Uganda. In the 5 year period beginning 1992–3, the World Bank pledged a total of $928.0 million, representing 23% of the total pledges and 36% of pledges from multilateral donors. One fact revealed by the data is the deliberate shift by the Uganda authorities to highly concessional financing. The sourcing of financing from the African Development Bank (ADB) was terminated in 1994–5 in preference to the African Development Fund (ADF). In addition, the dominance of the World Bank among the multilaterals in great part reflects a deliberate effort by the authorities to concentrate loan financing on highly concessional sources. Equally true is that most of the bilateral financing is in form of grants. European countries accounting for close to 70% of the pledges heavily dominate the pledges from the bilateral countries. The USA, Germany and the UK stand out prominently as key financiers of Uganda. Jointly, they account for over 50% of the pledges from bilaterals. Denmark, the Netherlands and Sweden closely follow. From the figures, it is difficult to discern any major shifts in sourcing of ODA among the bilateral countries. However, one could point out that Finland, Belgium and Ireland became donor countries to Uganda in the period 1995–6 to 1996–7.

The figures of pledges presented in Table 1 do not necessarily translate into commitment and disbursement. In particular, pledges during a particular year would not equal disbursements in that year as there exist long delays between the time of the pledge, the commitment and the final disbursement. Another problem is that pledges made at CG meetings do not always reflect new resources. Sometimes pledges of previous CG meetings are carried forward, especially if they were not followed up to fully commit the resources. There are also bureaucratic and technical delays between the times of pledging, commitments and actual disbursement. Other issues relating to procurement/tendering processes and lack of counterpart funds have resulted in the slow down of project implementation.

3.3 Aid Commitments to Uganda, 1962–97 ($ million)

As indicated earlier, aid data are not complete. However, on the basis of the information on commitments presented in Table 2, one could divide the post-independence experience of Uganda with aid flows into three distinct periods. First is the period 1962–79. During this period, commitments amounted to $357 million, representing only 4.1% of the total committed since independence. The figures also reveal that no bilateral donors except Russia committed resources to Uganda in the period 1962–71. The sourcing from bilateral donors shifted to the Arab countries in the period 1972–8. One striking feature about this period is the low level of financial support from the multilateral donors, especially the World Bank, and the general absence of Western countries. A combination of the political regimes at the time, the tendency of the regimes to lean towards socialism and the poor macroeconomic management limited the interest of donors from the Western countries.

Second is the period 1979–85, in which commitments to Uganda amounted to $1,127 million. Comparing the 6 year period from 1972 to a similar period from 1979 reveals that the average donor

Table 2: *Aid Commitments to Uganda ($ million)*

Creditor / donor	1962–71	1972–8	1979–85	1986–97
European Union			100.6	693.5
EU countries			100.8	1942.8
Japan				197.2
North America			23.3	458.5
Russia	19.8			0.3
Eastern Europe			9.0	34.9
China				175.6
Asia (excl. Japan)			8.0	93.5
Multilaterals				
o / w IMF		182.4	307.4	507.6
World Bank			206.3	1694.3
ADB	4.3	23.6	133.9	476.4
Others		27.1	216.9	700.2
Arab countries		99.4	20.4	167.3
Other bilaterals				49.1
Total	24.1[1]	332.5	1127.6	7190.4

[1]The disbursement for this period differs from the $94.08 million which is reported in the Warburg report of 1993. The totals for the other periods are acceptably comparable.
Source: ADU, Ministry of Planning.

commitments increased from $55 million to $188 million annually. In addition, the range of source countries and agencies is wider in the latter period. The European countries became the major source of bilateral assistance, followed by North America. However, multilateral donors dominated disbursements accounting for about 76% of total commitments. Among the multilaterals, the IMF was the leading donor, followed by the World Bank and the ADB. The lead role by the IMF is largely explained by the need to stabilise the economy through the release of quick disbursing resources to ease the foreign exchange constraint at the time.

Last is the period stretching from 1986 to 1997, which coincides with the period President Museveni has been in power. The period is unique in a number of ways. The average commitments by donors jumped from about $188 million for the whole of the previous period to over $650 million per annum. Equally interesting is the diversity in the source countries and organisations. A number of countries and agencies have been attracted to financially support the reform process implemented by the Museveni government. The reasons accounting for the phenomenon stretch beyond the improved political environment. As stated in other sections of this paper, the conducive macroeconomic environment has played a critical role in attracting ODA flows.

Most ODA commitments are accounted for by the multilateral donors, with a share of 46.97% of total disbursements. The World Bank alone accounts for slightly over 50% of the multilateral donors' aid, followed by the IMF. These figures reveal the shift in emphasis from stabilisation to structural adjustment.

3.4 Utilisation of Import Support and Debt Relief

As indicated above, the government has given emphasis to highly concessional borrowing and grant financing as part of its effort to achieve debt sustainability. This effort is in part reflected in Table 3,

Table 3: *Utilisation of Import Support and Debt Relief*

Absorption by donor / creditor	1991–2	1992–3	1993–4	1994–5	1995–6	1996–7
Multilaterals						
General BoP support	77.62	62.94	101.04	115.90	54.37	69.09
ADF	2.46	8.61				
ADFBoUOil		7.16				
ADF-SAL L[1]			15.00	0.00	0.00	0.00
EEC	9.07					
EEC BoU oil	3.97					
EEC-SASP G		18.76	1.21	13.05	9.88	15.87
EEC-STABEX G		6.12	0.00	5.38	0.00	7.98
IDA-ASAC L	13.15	5.36	23.73	13.57	0.00	1.20
IDA-2087-ERC II	7.61	10.46				
IDA (SAC / ASAC)	12.01					
IDA-SAC L	31.82	22.25	54.80	0.02	0.00	0.00
IDA-SAC II L				41.89	44.49	0.00
IDA-EDUC				0.00	0.00	0.00
lDA-FSAC L			6.30	41.99		44.04

Table 3: *Continued*

Other World Bank	1.76	10.00				
Other World Bank-BoU oil	0.13					
Debt relief			3.00		2.00	
EEC G			3.00		2.00	
Total	81.97	100.61	104.03	115.86	56.37	69.08
o/w loans	68.93	65.74	99.83	97.47	44.49	45.24
o/w grants	13.04	34.88	4.21	18.39	11.89	23.84
Bilaterals						
General BoP support			53.79	63.11	31.76	41.71
Canada	1.75	0.25				
Denmark G		4.07	2.24			
Japan L	4.50	15.20	19.36	26.96	3.81	
Finland	4.00					
Switzerland G	4.38	4.19	2.76	3.73		
UK G	20.05	14.50	25.36	29.17	26.37	32.80
USA G	15.00	2.62				
Austria L	5.00	3.00			1.57	
Norway G	5.03	0.58	4.07			8.91
Germany G		4.77		3.25		
Debt relief	12.90	12.93	36.35	41.20	50.20	53.31
Austria L						
Sweden G	6.80	8.07	2.86	6.54	4.85	
Netherlands G		4.85	16.03	10.20		
Norway G	4.10			10.50		
USA G	2.00		14.00	13.96	7.51	4.98
Denmark G			3.46			
Switzerland G						
Multilateral debt fund				37.84	48.33	
Total	72.61	94.68	90.13	104.31	55.99	70.53
o/w loans	5.00	18.20	19.36	26.96	5.38	0.00
o/w grants	67.61	76.48	70.77	77.35	50.61	70.53
Grand total	198.60	196.43	194.65	220.17	138.32	164.10
o/w loans	95.99	83.94	119.19	124.43	49.87	42.24
o/w grants	102.61	112.49	75.47	95.74	88.45	118.86
Memo item						
Total general BoP support	185.70	165.13	154.82	178.97	86.12	110.80
Total debt relief	12.90	31.26	39.39	41.20	52.20	53.31

L, loan; G, grant.
Source: Research Department, Bank of Uganda.

Table 4: *Sectoral Distribution of Aid Agreements ($ million)*

	1962–97	1962–71	1971–8	1979–85	1986–97
Agriculture	682.0		38.3	179.4	464.3
Education	308.0			51.8	256.2
Health	813.4			84.4	729.1
Industry	394.9		31.8	127.9	235.2
Mining and energy	416.7			78.3	338.4
Multisectoral[1]	4139.2	19.8	248.9	433.2	3437.4
Natural resources	207.3			4.3	203.0
Public administration	276.0			4.8	271.1
Social infrastructure	149.9				149.9
Transport and communications	870.0		7.6	90.1	772.3
Water infrastructure	416.3	4.3	6.0	72.4	333.7
Total	8673.7	24.0	332.5	1126.56	7190.5
Share	100.0	0.3	3.8	13.0	82.9

[1]Multisectoral represents assistance that cuts across sectors such as regional rehabilitation programmes and district development programmes.

which presents figures for the utilisation of import support and debt relief. These figures indicate a deliberate effort to source for debt financing which makes debt ratios sustainable in the long-run. The response by the donors is reflected in the increase in debt relief disbursements from $12.9 million in 1991–2 to $53.31 million in 1996–7. The figures also reveal that the share of grant financing in total balance of payments support increased from 51.8% in 1991–2 to about 72% in 1996–7.

3.5 Sectoral Distribution of Aid Agreements and disbursements ($m)

The figures of the sectoral distribution of aid presented in Tables 4 and 5 are based on aid agreements. As pointed out in other sections of this paper, these numbers do not represent actual disbursements but are informative in guiding the discussion on the sectoral distribution.

One problem in assessing the sectoral distribution of aid is the existence of programmes that cut across sectors, such as the economic reconstruction assistance and the regional rehabilitation project. Such programmes account for most of the aid agreements entered into by government. In the period 1962–78, such multisectoral programmes

Table 5: *Sectoral Shares of Aid Agreements*

	1962–97	1962–71	1971–8	1979–85	1986–97
Agriculture	7.9		11.5	15.9	6.5
Education	3.6			4.6	3.6
Health	9.4			7.5	10.1
Industry	4.6		9.6	11.4	3.3
Mining and energy	4.8			7.0	4.7
Multisectoral[1]	47.2	82.2	74.9	38.5	47.8
Natural resources	2.4			0.4	2.8
Public administration	3.2			0.4	3.8
Social infrastructure	1.7				2.1
Transport and communications	10.0		2.3	8.0	10.7
Water infrastructure	4.8	17.8	1.8	6.4	4.6
Total	100.0	100.0	100.0	100.0	100.0

[1]Multisectoral represents assistance that cuts across sectors such as regional rehabilitation programmes and district development programmes.

accounted for about 75% of all aid agreements. This has since reduced to about 46% in the period 1979–97. Donors seem to be shifting from multisectoral programmes to sector-specific programmes.

Moving from the period 1962–71 to the period 1971–8, the sectors that benefited from specific sector programmes were agriculture, industry, transport and communication, and water infrastructure. Among these sectors, preference was given to agriculture and industry. This largely reflects borrowing by government for on-lending to the private sector through the Uganda Development Bank (UDB).

In the period 1979–85, there is a wider range of sector-specific programmes. Again, agriculture and industry sectors account for a large share of the commitments. This was followed by health, mining and energy, and transport and communications. The transport and communications sector features prominently in the sector-specific programmes because of the dire need to rehabilitate the road infrastructure and telephone communication after years of neglect in the period 1971–8. One interesting factor is that, apart from health, sectors providing social services are not given priority. It is surprising that the education sector had not been singled out early in the post-independence period as a priority sector requiring a sector-specific programme. However, it could be argued that these sectors are well provided for in the multisectoral programmes.

The figures reveal that the government has scaled down borrowing for on lending to the private sector through the Uganda Commercial Bank and the UDB. Instead, the emphasis has been placed on improving the economic environment through liberalisation of the economy, privatisation of parastatals and improvement of the road infrastructure. In addition, the AIDS problem has been presented as a priority area. The government has also over the years attracted substantial resources from both bilateral and multilateral donors to support imports financing. This may explain the increase in the share for multisectoral programmes from 38.46 in 1979–85 to 47.8% in 1986–97.

A merchant bank, Warburg, in 1991 carried out an audit of Uganda debt. On the basis of their report we have prepared Table 6, which presents the sectoral distribution of loan disbursements. The report reveals the weaknesses in the data especially for the period 1962–71. Data based on commitments reflected total commitments for the period 1962–71 as equal to $24.03 million. However, the loan disbursements amounted to $100.33 million for the shorter period of 1964–72. The data also reveal that three sectors — namely agriculture and forestry, transport and communications, and education — accounted for about 89.6% of the total disbursements.

The sectoral distribution changed in the period 1973–8, with financing shifting from both education and agriculture to mainly rehabilitation and recurrent expenditures such as financing imports. Transport and communications remained a key sector, accounting for about 21.64% of total loan disbursements. The figures reveal that by the mid-1970s, Uganda required short-term stabilisation resources to finance imports at the expense of sectoral financing. This caused serious deterioration in the country's infrastructure so that by end of the 1970s infrastructure required major repairs.

As pointed out above, the period 1979–85 was highly influenced by the need to reconstruct and rehabilitate the economy after years of neglect during the Amin regime. Indeed, about 45% of the loan disbursements were accounted for by economic reconstruction. The agriculture and industry sector also obtained respectable shares of loan disbursements at the time.

The reconstruction of economic infrastructure continued into the period 1986–91. It accounted for over 38% of loan disbursements. The emphasis given to the rehabilitation of the transport network is

Table 6: *Sectoral Distribution of Loans from the Warburg Report ($ million)*

Sector	1964–72	1973–8	1979–85	1989–91
Agriculture and forestry	23.4	0	158.6	21.5
	(23.3)[1]	(0)	(15.8)	(2.7)
Industry	0	17.9	136.5	11.6
	(0)	(5.7)	(13.6)	(l.4)
BOP support[2]	0	15.9	18.3	15.6
	(0)	(5.0)	(1.8)	(1.9)
Utility	7.3	16.8	89.2	23.6
	(7.2)	(5.3)	(8.9)	(2.9)
Transport and communication	29.8	68.7	80.3	123.0
	(29.7)	(21.6)	(8.0)	(15.3)
Health	0	0	0	16.0
	(0)	(0)	(0)	(2.0)
CFF & SAF	0	190.7	0	2496
	(0)	(60.1)	(0)	(31.0)
Economic reconstruction	0	0	451.3	306.5
	(0)	(0)	(45.0)	(38.1)
Education	36.8	0	40.2	14.8
	(36.7)	(0)	(4.0)	(1.8)
Others	3.2	7.4	29.2	38.1
	(3.2)	(2.3)	(2.9)	(4.7)
Total	100.4	317.3	1003.6	804.6
	(100)	(100)	(100)	(100)

[1]Figures in parentheses are percentage shares.
[2]BOP, balance of payments.

revealed by the share of 15.29%, while the resources for balance of payments support accounted for less than 31% of the loan disbursements. The process of rehabilitating the infrastructure was given emphasis in the period 1986–97. Agriculture and education both accounted for less than 5% of the loan disbursements.

4. Evolution of Uganda's External Debt and Policy

A number of issues have been discussed in the literature relating to the impact of a heavy dependency of an economy on foreign savings in

Table 7: *Uganda: Outstanding Public External Debt by Creditor, 1991–6 ($ million)*

	June 1991	June 1992	June 1993	June 1994	June 1995	June 1996	June 1997	Dec. 1997[1]
Total debt	2591.5	2647.6	2637.2	2999.3	3387.0	3515.7	3661.2	3679.5
o/w arrears	370.9	583.1	301.8	251.0	233.4	250.3	317.6	299.6
Multilateral institutions	1643.6	1755.9	1815.9	2156.1	2487.9	2655.2	2763.9	2805.7
Bilateral Paris Club	285.4	273.4	281.8	332.0	380.2	350.6	339.1	336.5
Bilateral non-Paris Club	526.3	378.2	415.6	398.4	407.8	404.3	459.2	438.4
Commercial banks	40.3	15.5	17.1	1.3	7.7	3.0	1.1	2.5
Commercial non-banks	95.9	224.6	62.0	38.2	27.2	26.2	26.7	26.7
Other loans	0.0	0.0	44.8	73.4	76.2	76.4	71.2	69.7
				In percentage terms				
Multilateral institutions	63.4	66.3	68.9	71.9	73.5	75.5	75.5	76.3
Bilateral Paris Club	11.0	10.3	10.7	11.1	11.2	10.0	9.3	9.1
Bilateral non-Paris Club	20.3	14.3	15.8	13.3	12.0	11.5	12.5	11.9
Commercial banks	1.6	0.6	0.6	0.0	0.2	0.1	0.0	0.1
Commercial non-banks	3.7	8.5	2.4	1.3	0.8	0.7	0.7	0.7
Other loans	0.0	0.0	1.7	2.4	2.2	2.2	1.9	1.9
Memorandum items	1990–1	1991–2	1992–3	1993–4	1994–5	1995–6	1996–7	1996–7
GDP at current market prices (shs bn)	1710.0	2587.6	3652.8	4035.9	4914.6	5637.1	6306.7	n.a.
GDP at factor cost ($m)	2442.9	2219.2	3017.0	3693.4	5270.3	5565.8	5960.5	5960.5
Exchange rate	700.0	1166.0	1202.0	1093.0	933.0	1013.0	1058.0	1058.0
Debt/service ratio (exports of goods)		95.9	127.7	104.5	57.3	29.4	28.7	24.8
Debt/GDP ratio	106.8	104.5	87.6	81.2	64.3	63.2	63.2	61.3
Gross reserves		73.6	112.0	219.3	388.2	479.7	621.9	621.9
Coffee price	1.03	0.90	0.82	1.16	2.57	1.72	1.38	1.36

[1]Estimated.
Source: Research Department, Bank of Uganda.

financing its economic development. One such macroeconomic issue is for countries getting locked into a debt trap. Uganda's outstanding debt stock amounted to $1,286.0 million by 1986. Due to the heavy borrowing requirement and accumulation of arrears, the debt stock outstanding and disbursed increased by 101.5% to $2,591.5 million by the end of June 1991 (Table 7). At the time, multilateral institutions accounted for 63.4%, followed by the bilateral non-Paris Club with a share of 20.3%, while the Paris Club creditors accounted for 11.0%. Of the stock outstanding as at the end of June 1991, approximately $370.9 million was in arrears. The debt service ratio was over 95% while the debt to GDP was about 106.8%.

The success of the government in attracting foreign financing to rehabilitate / stabilise the economy did indeed lead to an increase in the public debt outstanding. Between June 1991 and June 1997, the stock of debt increased by about 41%, from $2,591.2 to $3,661.2 million. However, expressed as a share of GDP, the debt stock decreased from 106.8% in 1991–2 to 63.2% in 1996–7. The deliberate strategy by government to source highly concessional financing changed the structure of debt. Indeed, the share of multilateral debt in total debt crept up from 63.4% in 1991–2 to a peak of 75.5% by the end of June 1997. Uganda has therefore achieved a higher absorption of donor financing while reducing its debt burden.

The aid policy has been varying over time. For the period 1962–80, we failed to establish what the aid policy was. What may have been nearer to it is the borrowing by the government for on-lending to the private sector through the UDB. In the period 1981–4, there is a wider range of sector-specific programmes. However, owing to the urgent need for rehabilitation, the agriculture and industry sectors accounted for a large share of the commitments. Aid was thus mainly contracted for rehabilitation purposes. Between 1987 and 1997, aid was contracted mainly for specific programmes.

The developments in debt ratios over the period 1986–97 raises the issue of sustainability of this stock of debt. The current government has expressed worry about the debt servicing burden and has combined the rhetoric with action targeted at reducing the debt burden.[2] In particular, the government in 1992 adopted an elaborate debt strategy for managing its external debt. The aim of the strategy included:

- clearing the bulk of the accumulated arrears, which in some cases

[2] A more detailed discussion is presented in Abuka (1998).

caused legal actions against the government, and in some cases also resulted in an embargo on disbursements and hence project disruptions;

- stopping the accumulation of arrears;
- reducing the contractual debt service due to a level commensurate with Uganda's ability to pay;
- remaining current with international financial institutions and the Paris Club to attract concessional financing.

The components of the strategy included rescheduling, buying back debt and restructuring uninsured commercial debt, implementation of the fifth and sixth dimension facilities of the International Development Agency (IDA), and cancellations. To date, Uganda has achieved some successes in the implementation of the strategy. It has, for example, realised some rescheduling on (i) the pre-1981 debt owed to the Paris Club and (ii) some non-OECD bilateral debt. Uganda also successfully implemented a buy back of unsecured commercial debt financed under the IDA Sixth Dimension facility. The government was able to buy the debt at a discount of 88% of the eligible debt, including unpaid interest penalties and commission as of 30 September 1992. The exercise was successfully implemented, extinguishing debt worth $153 million of the total eligible debt of $188 million. The authorities have since then limited non-concessional borrowing to below $10 million per annum. In November 1995, the multilateral debt fund was created to meet payment of maturities falling due to the IMF, IDA and ADB/ADF group. By June 1997, $88 million had been utilised under this fund.

To the extent that Uganda's external debt has since the 1970s been owed mainly to multilateral donors, this has limited the flexibility with which Uganda could reduce its debt service burden through traditional rescheduling. With the preponderance of multilateral debt in the structure of the total debt and the current lack of debt relief instruments to handle this kind of debt, the ability to sustain economic growth for some poor countries which are pursuing sound macroeconomic policies becomes constrained. Consequently, the highly indebted poor countries (HIPC) debt initiative, jointly developed by the donors and the multilaterals, with the IMF and the World Bank taking the lead, was instituted to take care of such countries. This is of vital importance to Uganda, which has a large stock of debt owing to the multilateral institutions, and this initiative currently dominates the debt policy in Uganda. Basically the initiative aims at attaining overall debt sustainability and thus enabling participating countries to exit from the debt rescheduling process.

In April 1997, at a meeting of the IMF and World Bank directors, Uganda was declared eligible for debt relief under this initiative and it became the first country to benefit from it. At the completion point in April 1998 a relief amounting to $650 million was granted to Uganda, to be given in several ways. The World Bank funds are to be channelled through the HIPC trust fund and their disbursements are linked to the progress with the World Bank's structural adjustment programmes, as well as various measures in social sectors that are contained in the government's action plan for poverty eradication. Relief on the existing IMF loans will be given as refinancing, linked to the progress with the new 3 year IMF programme negotiated in May 1997. Paris Club creditors have also agreed to increase relief on past write-off to 80% and comparable treatment is expected from non-OECD creditors.

As indicated in the previous sections, the government complemented its debt reduction efforts with appeals to donors to pledge debt relief in an effort to reduce the debt service burden. As a result of combined efforts of restructuring debt, seeking cancellations and financing plus improved foreign exchange receipts, the debt service ratio, which had reached a peak of 127.7% in 1991–2, has since dropped to about 24% to date.

5. Impact of ODA Flows on some Macroeconomic Variables

In the foregoing analysis, it has been established that ODA flows to Uganda are substantial. It has also been established in earlier articles that ODA flows to Uganda have had significant impact on key macroeconomic variables. Kasekende and Semogerere (1994) and Abuka and Sajjabi (1996) showed that ODA flows have significant effects on the exchange rate. In addition, a study by Kasekende and Kitabire (1997) analysed the impact of private sector flows on investment, domestic savings and growth. These relationships are revisited in the current study.

5.1 Investment

Investment as a ratio to GDP recovered steadily from 1986 to 1990. This largely followed the restoration of peace in 1986 and the onset of the rehabilitation of infrastructure and productive capacity. Investment as a ratio to GDP during 1986–96 has averaged about 15%, while the average of Africa is around 20% over the same period. This suggests that the current investment levels are still low and have to be increased if the high growth rates that have been achieved to date are to be sustained [see similar arguments by Collier (1996)].[3] Savings, on the other hand, though an important aspect of a sustainable growth process,[4] have been extremely low. Consequently, Uganda has had to rely on foreign savings as a way to kickstart investment while at the same time putting in place efforts to increase private and public sector savings that had been depleted during the previous reign of economic mismanagement.

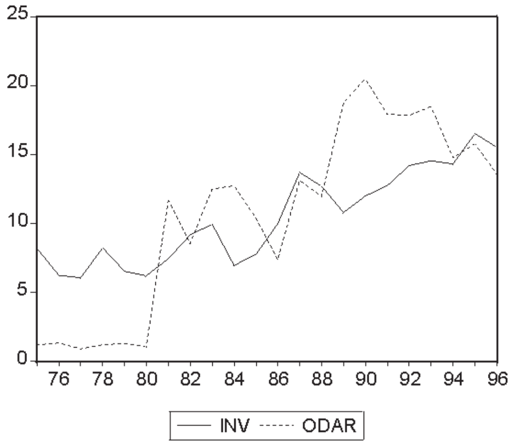
The current ODA resource inflows, largely from the IMF and the World Bank, have mainly been associated with improvements in export performance and other balance of payments indicators, but have to a limited extent been directly correlated with increased economic growth via increased capacity expansion. The current focus of the programmes has mainly been in achieving improved economic performance by raising the quality of domestic policies. Given the anticipated decline in the future ODA/GDP ratios, high levels of investment are needed now, particularly investment in social and physical infrastructure, in order to sustain the current economic growth rates. This aside, there is need to attract more FDI and raising the current savings/GDP ratios through the sustained pursuance of sound macro-economic policies. Figure 2 shows the pattern of investment/GDP and ODA/GDP ratios measured as percentages for the period 1970–96.

A World Bank publication on Uganda (1995) revealed that investment in structures rather than equipment and machinery appears to have been the major driving force behind growth experienced in Uganda. To sustain the current high economic growth rates, Uganda

[3] In the case of South-East Asia, the investment GDP ratios averaged about 40%.

[4] Although here the excess of investment over domestic savings can create inflationary pressures and aggravate balance of payments problems.

Figure 2: *Investment/GDP and ODA/GDP Ratios (%)*



would require higher investment in equipment and machinery (Collier, 1996), which needs increased amount of foreign resources. Other areas that require substantial investment include social and human capital, improvement in the rate of return on land and labour. These largely entail modernising agriculture through irrigation,[5] high-value crops, research and extension services, universal primary education and health. Given the current constraints in the resources envelope facing Uganda, it would require foreign assistance to raise some of these resources. To date, universal primary education is largely funded by the donor community and it is expected that, with the HIPC initiative now operationalised, Uganda will see increased resources flowing to the social service sector.

In our empirical work, we use annual data for the period 1970–96 to analyse the impact of ODA flows on some major macroeconomic variables to Uganda. A Granger causation between investment (INV) and ODA is investigated. The results in Table 8 suggest the rejection of the hypothesis of no causation from ODA to INV and acceptance of no causation from INV to ODA at lag 2. Consequently, one can argue that there is a unidirectional causation from ODA to INV. Equation (1)

[5] To date, however, the issue of land ownership constitutes a major bottleneck to modernising agriculture. Irrigation and commercial agriculture may not be possible under the current land tenure system.

Table 8: *Granger (Non-)Causation Test between ODA and INV*

	2 lags	3 lags	4 lags
To test whether ↓ does not Granger cause → INV			
ODA	5.93	2.28	2.73
	(0.01)	(0.11)	(0.07)
To test whether ↓ does not Granger cause → ODA			
INV	0.11	0.17	0.93
	(0.89)	(0.92)	(0.48)

The results shown are F-statistics from Granger non-causality tests, with the associated probabilities shown in parentheses under each result.

shows the long-run bivariate relationship derived from the Johansen (1988) procedure between ODA and INV.[6]

$$INV = 0.25 \cdot ODA. \tag{1}$$

The above results shows a positive relationship where a 1% increase in the ODA/GDP ratio results into a 0.25% rise in gross domestic investment.

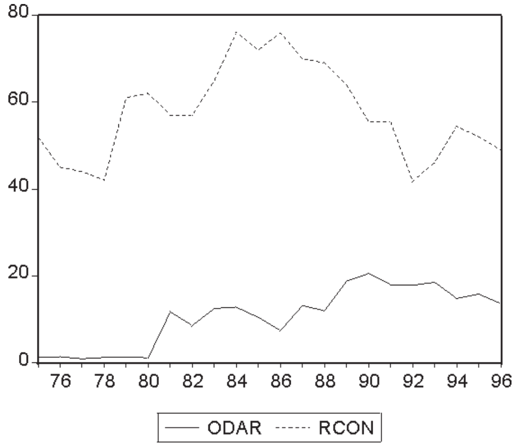
5.2 Consumption

Consumption[7] as a ratio to GDP has generally been on the decline. One would argue that some of the conditionalities which the donors have spelt out in their stabilisation and structural adjustment programmes are partly responsible for this. The stabilisation programmes adopted in 1981 and 1987 attempted to bring aggregate demand in line with the existing aggregate supply. It was identified that high government expenditures were partly responsible for the excessive aggregate demand. Subsequently, cuts and rationalisation in government ex-

[6] Cointegration results, maximum eigenvalues, a trace of the stochastic matrix, and α and β matrices can be obtained from the authors upon request.

[7] Consumption as defined here does not include subsistence consumption.

Figure 3: *Plot of Consumption/GDP and ODA/GDP Ratios (%)*



penditures were instituted. As part of this exercise, the government deliberately scaled down or even pulled out of certain areas of the economy. In particular, it implemented civil service retrenchments, privatisation and divestiture, and also used the cash flow in budget management. These measures were all designed to ensure that government expenditures were well within the existing resources envelope.

To the extent that the private sector was beginning to play a bigger role in the economy, increases in total consumption became largely accounted for by increased consumption in the private sector. This was the case in 1994–5 following the coffee boom which resulted in an increase in the domestic consumption and investments in structures, hence largely contributing to the 10% growth in GDP experienced that fiscal year.

We therefore argue that total consumption in Uganda has largely been influenced by recovery in the economy. In this regard, we recognise the direct role of ODA flows in sustaining government consumption and the indirect role in reviving private sector income-generating activities (Figure 3).

We therefore provide an empirical analysis to test whether consumption in Uganda is driven by ODA inflows. A Granger causation test between ODA flows and consumption (CONS) for the sample period 1970–96 is used and the results are presented in Table 9.

Table 9: *Granger (Non-)Causation Test between ODA and CONS*

	2 lags	3 lags	4 lags
To test whether ↓ does not Granger cause → CONS			
ODA	0.06	0.13	0.24
	(0.94)	(0.94)	(0.91)
To test whether ↓ does not Granger cause → ODA			
CONS	1.12	0.59	0.78
	(0.35)	(0.63)	(0.56)

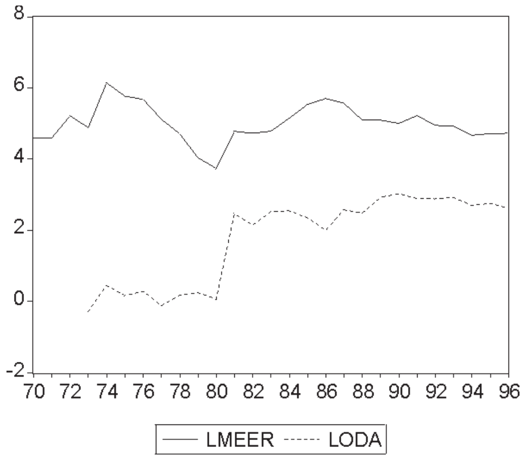
The results in Table 9 suggest the acceptance of the hypothesis that there is no causation from ODA to CONS and also from CONS to ODA at lags between 2 and 4. Consequently, one can argue that there is no direct relationship between these two variables. It might then require a multivariate rather that a bivariate analysis involving other variables such as income to properly assess the relationship between ODA flows and consumption.

5.3 Real Exchange Rate

The role of the exchange rate in stimulating growth was the subject of protracted debate in Uganda (see Tumusiime-Mutebile and Henstridge, 1995). This debate culminated in the government taking a more liberal approach to exchange rate determination and foreign exchange management (see Kasekende and Semogerere, 1994). More recently the debate has shifted to the potential impact of both ODA and private sector flows on the market-determined exchange rate (Kasekende and Martin, 1995; Abuka and Sajjabi, 1996; Kasekende and Kitabire, 1997). The main worry is that huge inflows have been a source of appreciation pressure, thus reducing the competitiveness of the export sector. This is also linked to the broader debate of sustainability of the reform programme.

In the case of Uganda, the institutional arrangement is such that most ODA flows — especially programme-related flows — are disbursed to the central bank. The bank credits the government with the

Figure 4: *Logarithm of ODA Flows and MEER*



local currency equivalent. The resources, therefore, are not intermediated in the private sector foreign exchange market. Sales or purchases to or from the foreign exchange market by the central bank which influence the exchange rate movements are at the discretion of the central bank. On the basis of the above, the impact of ODA flows on the exchange rate should be minimal.

It should, however, be pointed out that there are resources managed by non-government organisations (NGOs) that are intermediated in the private sector foreign exchange market. To the extent that NGOs are supported by donors, one cannot minimise the potential of foreign exchange flows to NGOs in appreciating the exchange rate. Therefore, the proposed shift of resources from direct budgetary support to channelling them through NGOs may create problems for exchange rate management. Between 1993 and 1996, the real exchange rate came under appreciation pressure more often than not. This was investigated in an earlier study by Abuka and Sajjabi (1996), who reported a significant relationship between ODA flows and the real exchange rate. This analysis is now revisited. Figure 4 shows the relationship between the logarithm of ODA flows and the market-determined effective exchange rate (MEER).

Our aim is to test whether ODA flows have any effect on MEER, be it appreciative or depreciative. Using a bivariate causation analysis presented in Table 10, we find that at the 5% level there is a uni-

Table 10: *Granger (Non-)Causation Test between ODA and MEER*

	2 lags	3 lags	4 lags
To test whether ↓ does not Granger cause → LMEER			
LODA	3.12	1.45	1.30
	(0.07)	(0.27)	(0.32)
To test whether ↓ does not Granger cause → LODA			
LMEER	3.78	1.86	0.97
	(0.04)	(0.18)	(0.46)

directional causation from MEER to ODA at the second lag, although at the 7% level a bidirectional causation exists at the second lag.

From Table 10, we accept the bidirectional causation because our results from the Johansen Weak Exogeneity Test suggest that both variables are not weakly exogenous to each other.

Equation (2) shows the long-run bivariate relationship between ODA and MEER.

$$\Delta LMEER = -0.03 \cdot LODA. \tag{2}$$

The equation shows a negative relationship where a 1% increase in the ODA flows results into a 0.03% appreciation in the market determined effective exchange rate.

5.4 ODA Flows and Policy Environment

This draws us to analyse the relationship between policy environment and ODA flows. The policy environment here is proxied by the premium of the MEER on the official rate such that a decline in the premium proxies for an improved policy environment. Figure 5 shows the plot of ODA flows and the proxy for policy environment.

It might be correctly argued that the premium got totally wiped out in 1993 when the official exchange rate became linked to the interbank forex market and therefore became a poor measure for policy. Nevertheless, eliminating the premium and keeping it that way is in itself a measure of good policies.

Figure 5: *ODA Flows and Policy Environment*

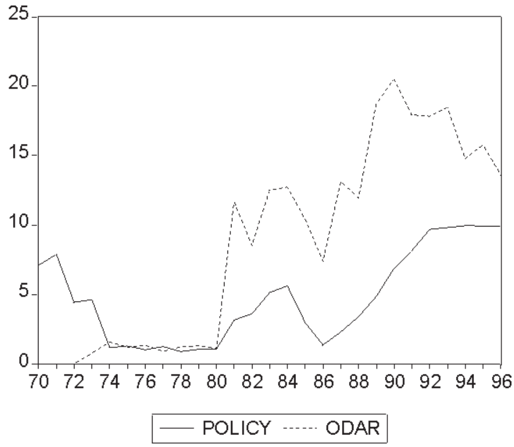


Table 11: *Granger (Non-)Causation Test between ODA and Policy Environment*

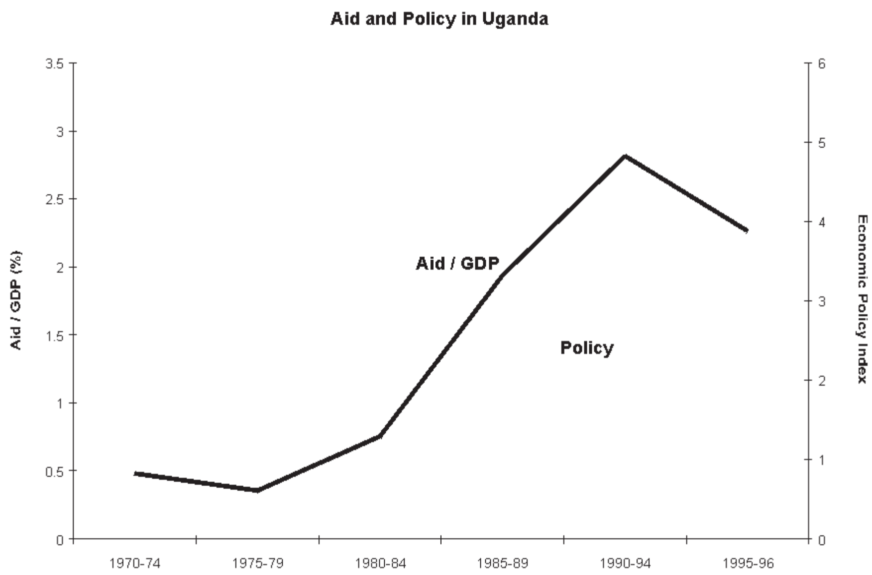
	2 lags	3 lags	4 lags
To test whether ↓ does not Granger cause → POLICY			
ODA	5.35	0.86	1.55
	(0.01)	(0.48)	(0.24)
To test whether ↓ does not Granger cause → ODA			
POLICY	2.17	1.14	0.97
	(0.14)	(0.36)	(0.45)

Using a Granger causation analysis presented in Table 11, we find that at the 5% level there is a unidirectional causation from ODA to POLICY at the second lag only. Equation (3) shows the long-run bivariate relationship between ODA and POLICY.

$$POLICY = 0.83 \cdot ODA. \tag{3}$$

The equation shows a positive relationship where a 1% increase in the ODA flows results into a 0.83% improvement in policy environment. It should, however, be noted that this sample covers the period 1970–96,

Figure 6: *Aid and Policy in Uganda, 1970 –96*



a large part of which was dominated by a poor policy environment. Consequently, such results are not therefore surprising, though they do not necessarily imply that a good policy environment is largely dependent on ODA flows. Holmgren *et al.* (1999) argue that the ownership of the reform programme which was strengthened in the early 1990s reversed this situation. This improved the environment and donors began responding by increasing the amounts of aid disbursed. This is explained in Figure 6, which relates aid / GDP with an index of economic policy. The index combines the three factors which a number of quantitative studies have shown to be critical factors in explaining developing countries' growth, i.e., inflation, budget surplus and trade openness [as measured in Dollar and Easterly (1998)].

A particular change in the policy index can be noted in 1987–8, when the government implemented the Economic Recovery Programme (ERP). During this period, aid actually preceded the improved policies time-wise during the late 1980s as it was mainly financing policy reforms. However, when the government acquired full ownership of its reform programme from 1992 onwards donors started to scale down their assistance[8] despite the fact that the policy environment continued to improve. This alone shows that aid did not buy a good policy environment.

5.5 Budgetary Support

Aid inflows can be used either for increasing government expenditures or offsetting the need for deficit financing, hence counterinflation and crowd in the private sector as competition for domestic credit between government and the private sector is eased. However, heavy reliance on aid could create a moral hazard problem as it may weaken efforts to increase domestic revenue mobilisation.

In Uganda, aid has supported the adjustment process by way of strengthening economic performance and social welfare during the adjustment period. This has been through the support of government budget and more explicitly by enabling an anti-inflationary policy and the liberalisation of financial markets. The government has been able to reduce bank financing from an average of 2.0% of GDP in the period 1980–5 to an average of 0.8% of GDP in 1986–90, while in 1990–7 the government has been a net saver with the banking system, excluding the financial year 1991–2.[9]

A key outcome of the strict budgetary discipline has been the control of inflation. The government has managed to reduce inflation from over 238% in 1986 to an average level of about 7% in the period 1993–7.

6. Ownership of Aid Activities

The concept of ownership is treated as the decision of the government to agree on its own that pursuit of optimal policies is desirable to achieve economic stability and stimulate economic growth. The government should then design an appropriate sequencing of the policy reform and source appropriate financing. Consequently, when the Ugandan government authorities called a consultative forum in 1989 on how to bring about a halt and a reversal in the economic

[8] The measurement factor, i.e., aid / GDP, could have declined as a result of the high economic growth rate that took place between 1994 and1996, largely attributed to the coffee boom.

[9] Refer to Kasekende and Sejjaka (1997) for a more detailed discussion.

decline that had hitherto been experienced, they were in effect designing an economic programme. The forum took into consideration the domestic resource constraints and the increasingly difficult access to international finances. In addition, the forum also recognised the fact that state ownership, price controls and other forms of regulations were detrimental to economic recovery.

As a result, the IMF and the World Bank were called in to help the government design a programme in consideration of the recommendations of the consultative forum. It is worth noting that the structural adjustment programme (SAP) which the IMF and the World Bank designed incorporated many recommendations of the consultative forum, including the liberalisation of the financial sector, privatisation and divestiture, and reduction of excessive government expenditure. In addition to this, there has been a strong political commitment to rigorously implement the programme. The ownership of the programme together with the political will to implement it might explain why there have been no policy reversals in the programme and the satisfactory success achieved by the programme.

This then leads to the issue of relationships being built on a contractual form based on mutual interest between the recipient and the donors. Killick (1997) argues that this calls for the recipient government to design the policy content of the contract while committing itself to these actions in return for donor commitment for an agreed level of financial assistance over a given period of time. Killick (1991) also argues that the right for either party to cancel the contract exists if one party does not fulfil its obligation. In such a scenario, there would be a tendency for the recipient government to press for guidelines on the actions necessary to qualify for financial assistance.

This kind of arrangement appears to be working in the case of Uganda, where results have been achieved from government-initiated measures with donors mainly providing technical and financial assistance. The Uganda authorities have to date selectively chosen to pursue pro-developmental and poverty-reducing strategies in addition to good macroeconomic policies. The donor community has consequently come in to finance these specific areas and, in particular, the IMF and the World Bank are lending technical and financial support towards the support of these policies. Poverty reduction policies have included the introduction of the government-initiated programme of universal primary education to which substantial resources from both multilateral and bilateral sources have been mobilised.

As a result of government commitment to pursuing sound and pragmatic macroeconomic policies necessary for growth and poverty reduction, Uganda became the first country to benefit from the HIPC initiative to which ample amount of resources saved will be used for increased provision of social services mainly for the poor.

NGO activities have also increased, probably reflecting donors' interest in helping the government directly in its poverty eradication action plan. There is a belief that if the NGOs directly deal with projects involving the poor, the impact is higher as there is greater efficiency in resource use. To date, there appears to be anecdotal evidence pointing to significant success by some NGOs' improving incomes of the people they are dealing with. Consequently, there is a need to clearly define the role of the NGOs involved in direct poverty reduction. These range from those of supplying production inputs and health services[10] to those that provide credit services[11] on a commercial basis. In the latter case, their legal status needs to be clearly defined given their financial role in the provision of credit to micro-enterprises and risks associated with financial intermediation without any form of regulation.

Decentralisation efforts are also aimed at poverty reduction and increasing the participation of the population in contributing to economic growth. There are districts that have managed to attract donor interest. DANIDA, for example, has invested substantial resources in developmental activities of the Rakai district. It has also pledged to increase its financial assistance to the projects in the district by one shilling for every shilling contribution made by the district towards developmental and poverty reduction projects. To date, Rakai has been transformed from being an AIDS- and poverty-ridden district to one of the fast-growing and poverty-reducing districts in Uganda. Another district that has a similar arrangement with the donor community is Nebbi in north-western Uganda. Such arrangements could be incorporated into national programmes for purposes of consistency.

[10] These include NGOs such as Amref, Red Cross and Oxfam.

[11] Included here are NGOs such as FINCA, Pride Africa and Presto.

7. Lessons from the Experience in Uganda

The following have come out clearly in the period that Uganda has implemented reforms:

1. Ownership of the reform programme is critical to its success.
2. There is a need for a debt strategy so that the sourcing of increased ODA does not lead to a future debt problem.
3. Macroeconomic and political stability trigger increased donor interest.
4. The issue of conditionality has not been extensively discussed in this paper. Suffice to note that there is need for reduced conditionality on aid to increase absorption. It would also help if donors could agree to a unique set of conditions for aid disbursement

8. Conclusion

Foreign financing helps to consolidate a good reform programme by providing not only the finances but also policy advice and exposure to other countries' experience. We believe that, at a certain level of implementation, these good policies should become self-sustaining by producing benefits that can promote economic growth and poverty reduction. It could also be argued that since Uganda has developed and demonstrated good reform programmes, then adjustment loans should be used as vehicles for providing financing rather than in buying further or accelerating current reforms.

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