

THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON UGANDA: WHAT MITIGATING ROLE CAN PUBLIC ADMINISTRATION PLAY?

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Abstract

Until 2007/08 Uganda had continued to record a strong economic growth since 1992 which was mainly driven by services, construction and manufacturing sectors. Recent data indicate that Uganda's economy has continued to grow at high rates, registering a robust rate of 7% in 2008/2009 at market prices despite the global financial crisis. This was however lower than the growth rate of 9% per annum which was achieved in 2007/08 financial year (FY). Furthermore, according to the National Budget for 2009/10 FY, Uganda's economy is projected to grow at 6% in FY 2009/10 which is lower than the average growth in the last five years. These are therefore quick indicators reflecting that Uganda's economy cannot completely remain resilient to the ongoing global financial crisis.

This paper provides an analysis of how Uganda may be affected by the global crisis and the responses required by the government and other stakeholders in the country particularly public administration to mitigate the crisis. Although all impacts will not show up at the same time and it may perhaps be rather early to comprehensively provide an empirical impact on the economy, the analysis focuses on some of the impacts which are so far visible.

It is concluded that prospects for 2009/10 Financial Year remain uncertain and the duration and depth of the global recession cannot be estimated with any certainty. The crisis will however affect government spending and revenues. It is therefore likely to put pressure on government spending to address social protection and restore growth. This will require strong remedial policies to mitigate the likely negative impacts on the country's economy and the people's quality of life. To achieve the objectives of such policies, all public administration organs must be able to demonstrate proper stewardship of the public money and show value for money (VFM) in their strategies and activities.

1. Background

Recent data by various government bodies such as the Uganda Bureau of Statistics (UBOS), Bank of Uganda (BOU) and the Ministry of Finance, Planning and Economic Development (MFPED) indicate that Uganda's economy has continued to grow. It registered high growth rate of 8.4% in 2006/07 and 9% in 2007/08 as indicated in Table 1 below which gives a summary of the GDP growth rates over the last 5 years.

Table 1: GDP Growth Rates at Basic Market prices, 2004/05-2008/09

Year	2004/05	2005/06	2006/07	2007/08	2008/09
GDP at market prices	6.3	10.8	8.4	9.0	7.0
GDP at basic prices	6.6	10.3	6.9	8.3	6.7

Source: Uganda Bureau of Statistics (UBOS)

Since 2003/04, Uganda has continued to enjoy impressive growth in the three major sectors of agriculture, industry and services. As reflected in Table 2, the Service Sector has had a steady growth in its contribution to GDP which has ranged between 49% in 2003/04 and 51.5% in 2007/08. The contribution from agriculture has however declined from 21% in 2003/04 to 15.6% in 2007/08 although it still remains the major source of employment for over 80% of the people of Uganda.

Table 2: Sectoral Contribution to GDP and Growth Rate at Market Prices 2003/04-2007/08 (2002/03=100) (%).

	2003/04	2004/05	2005/06	2006/07	2007/08
Sectoral Contribution to GDP					
Agriculture	21.1	20.2	18.3	17.0	15.6
Industry	22.8	24.0	24.8	25.3	24.5
Service	49.1	49.0	49.6	50.1	51.5
Adjustment	7.0	6.8	7.2	7.7	8.4

Source: UBOS (2003/04-2007/08)

Similarly, the value of exports has been on the rise since 2003. As indicated in Table 3, the total value of exports increased from US\$ 534.2 million in 2003 to US\$ 1,337 million in 2007. The non-traditional exports ranged between US\$ 334.8 million in 2003 and US\$ 937.3 million in 2007 which by far exceeded the traditional exports which ranged between US\$ 199.3 million and US\$ 399.4 million in the respective years.

Table 3: Export By Value ('000 US\$) 2003-2007

Commodity	2003	2004	2005	2006	2007
Traditional Exports	199,344	244,955	267,522	288,142	399,354
Non- Traditional Exports	334,762	420,134	545,335	674,051	937,314
Total	534,106	665,090	812,857	962,193	1,336,668

Source: UBOS, BOU

According to the Bank of Uganda records (BOU Report 2006/07), coffee exports increased by 31.8% to US\$ 228.5 million. Non- coffee exports increased by 43.8% to US\$ 1,011.42 million mainly due to higher receipts from exports of hides and skins, tea and tobacco. Arising from increased demand from the regional market, particularly from Southern Sudan, other exports category also increased significantly. For example the flow of tourists in Uganda has been on a steady rise since 2000 particularly those from Africa, Europe and America. Tourism has been one of the fastest growing sectors of the economy with an annual growth rate of 21% (UBOS 2006). It is also emerging as Uganda's main foreign exchange earners having overtaken coffee which has traditionally been the key foreign exchange earner. In 2007 and 2008 the total tourist arrivals were 641,743 and 843,864 respectively (New Vision 18 June 2009)

Although the general trend and the recent data indicate that Uganda's economy has continued to grow at high rates, the recent global economic crisis presents a severe threat to the economy. And unless it is mitigated, it is likely to slow economic growth and worsen the hardships mainly of the poor who constitute over 31% of Uganda's population. The World Bank President Robert Zoellick has cautioned Uganda to prepare for hard times ahead, as the global economic crisis is still unfolding (New Vision 14 August 2009, p3)

2. The observed effects on Uganda Economy.

The global financial crisis is bound to have a major impact on developing countries including those in Africa (Massa and Velde, 2008) and Uganda is not an isolated and independent island so as to be immune completely, to the global financial crisis. In fact Uganda's Ministry of Finance, Planning and Economic Development (MFPED) admits that Uganda's economy is an open one and developments in other countries have implications for the country (Background to the Budget 2009/10).

Previously it was thought that Uganda would not suffer from the financial contagion on account of limited linkages of its financial system with financial systems of the developed world (Ssewanyana et.al.2009) and because of its diversified nature particularly the export and service sectors. In fact on several occasions, political leaders have emphasized this assurance. For example President Yoweri K. Museveni has assured the nation of the country's stable economic growth amidst fears of the global crisis. His latest assurance was in June 2009, in his address to Parliament On The State Of The Nation (<http://www.parliament.go.ug>). But the signs are that the impacts have already been felt.

In recent months the ongoing financial crisis has started to hit the Uganda economy which had thus far been somewhat insulated from its adverse implications. There are however conflicting opinions as to how extensive and how deep these impacts are going to be for the country. This will perhaps hinge critically on whether the recession will be a short one, with the year 2009 being the hardest hit or is it going to last longer with the downturn extending into 2010 and recovery kicking off only in 2011. According to the FY 2009/10 National Budget, Uganda's economy is projected to grow by about 6% in 2009/10 Financial year which is lower than the average growth in the last five years (see Budget Speech FY 2009/10).

According to Tumusiime – Mutebile (2009) who is the Governor of the Bank of Uganda, the global economic meltdown could have an effect on Uganda's economy through several transmission channels and in fact some of these effects have already been observed:

- Global recession could prompt lower prices for Uganda's exports, resulting in lower fiscal revenues as trade slows down.
- Tight global credit conditions could lower external financing through reduced foreign direct investment (FDI) as well as lower borrowing to meet the needs of the economy.
- Uncertainty and genuine needs abroad, could imply capital flight and related pressure on the exchange rate and interest rates.

The Bank of Uganda Report (2008) on the state of Uganda economy as at May 2008 adds some other channels:

- Remittances may decline in line with unemployment among recession affected industrial countries.
- Aid flows may decline in the long-run as recession –hit rich countries reassess their priorities.

Indeed as Ssewanyana et al (2009) have pointed out, pre- and post crisis analysis of the main economic indicators shows that there are not only direct impacts, albeit not very significant, but also significant secondary impacts touching a number of sectors of the economy.

3. The Extent Uganda has been affected by the shock of the Global Economic Crisis.

It is quite evident now that the ensuing economic recession in the developed world is having a knock-on effects on the Ugandan economy. Several changes in the economy have been observed in recent months and the adverse effects of the crisis are manifesting themselves through a number of channels:

a) Trade

Although Uganda's trade has recently been improving (12.8% of exports to GDP in 2007/08 as indicated in Table 3, there was a marked reduction in exports in 2008 compared to the past two years, signifying the effect of the crisis (Sewanyana et al 2008). Tumusiime -Mutebile (2009) also points out that although exports for the period up to August 2008 were remarkably robust exceeding 2006 and 2007 values, both exports and imports have recorded lower growth rates and in some instances, they have stopped growing since around September 2008. This is so because the global economy is now linked more than before because of the globalization, and decreases in demand for goods in developed countries will have a real impact on the economies of the developing world which supply mainly primary commodities. Meyn and Kennan (2009) emphasize that commodity dependent developing country exporters are heavily affected by the financial crisis: demand from industrialised countries is declining and commodity prices have dropped drastically in anticipation of decreased global demand and economic growth. For most commodities, the World Bank (2008) has predicted the stabilization of prices at about the 2005 level by 2010/15.

In Uganda, the performance of the coffee sector, which nearly contributes 20% of total exports, has gone down. Europe is the main destination for Uganda's coffee, and worst hit by the crisis after the United States of America (Sewanyana et al 2009). The value of coffee exports for Uganda fell by 0.8% in December 2008 compared with the year earlier, with declines explained largely by the drop in export prices (of 9.4%) rather than changes in volume (BoU 2008). Similarly, trade in services is also not likely to be spared by the global crisis. For example, tourism which is one of the major foreign exchange earners is bound to decline because most tourists in Uganda come from Europe. Information from the Ministry of Finance, Planning and Economic Development (MFPED) and the Uganda Tourism Board (UTB) point to the fact that the effect on tourism, hotels and conference destinations has already been felt, as their performance is declining.

Although the regional trade especially in non-traditional exports such as maize, beans and cement was expected to cushion Uganda from the adverse effects of the crisis, current developments are not in its favour. Indeed exports to the regional market accounted for 45% of all Uganda trade in the third quarter of 2008 (Sewanyan et al 2009). However, towards the end of the last quarter of 2008, prices of non-traditional exports to regional markets reduced significantly, so did the volumes traded-suggesting low demand in importing countries (BoU 2008). It is therefore possible that low demands in importing countries may limit the extent to which regional trade can cushion Uganda against the adverse effects of the crisis in the medium and long term.

b) Private Capital inflows

Private capital flows represents an important channel through which the current global crisis is affecting developing countries. Private inflows include three types: foreign direct investment (FDI) portfolio investment flows and international bank lending (Velde 2009). As observed by Mwega (2009), FDI brings investable financial resources to host countries, provides new technologies and may enhance efficiency of existing technologies. FDI may also facilitate access into export markets, thereby playing an important role in strengthening the export capabilities of domestic economies. It may enhance skills and management techniques and may provide cleaner technologies and modern environment management systems. FDI has also the potential of enhancing growth of domestic firms through complement in production and productivity spillovers. However because of the difficulty in raising capital, it is conceivable that the level of FDI may decline as foreign firms look inwards to solve domestic challenges.

The Governor of Uganda's Central Bank Tumusiime Mutebile (2009) clearly points out that in 2006/07 and 2007/08, there was a sharp increase in other foreign capital inflows comprised of aid (loans and grants), workers' remittances and NGO inflows, and private sector credit. But since around October 2008, inflows have dropped off with two direct effects: (a) depreciation of the Uganda shilling and (b) an increase in domestic interest rates:

Table 4: Uganda Nominal Exchange Rate Developments, March 2006 - 2009.

Currency	Date	Euro1=	US \$ 1=
Uganda Shilling	2006 (20 Jan)	2209.05	1826.36
	2007(20 Jan)	2394.08	1846.0
	2008 (20 Jan)	2517.1	1721.0
	2009 (20 Jan)	2653.83	2001.0
	(20 Feb)	2508.75	1986.0
	(20 March)	2763.74	2041.0
	(20 April)	2859.25	2191.0

Source: Bank of Uganda (2009)

As indicated in Table 4 above, the Uganda Shilling- United States dollar exchange rate has since January 2009 gradually depreciated. Tumusiime - Mutebile (2009) puts it at 20% relative to its September 2008 value reflecting lower inflows by portfolio investors. MFPED attributes the depreciation to deteriorating terms of trade, foreign investors in government securities withdrawing from the economy, and marked decline in remittances from Ugandans aboard and transfers to NGOs (*see New Vision Pull-out 22 June 2009*). According to the Bank of Uganda Governor, it is estimated that foreign portfolio

investors held around US\$ 400 million in GOU Treasury Bills and Bonds as of September 2008 and about US\$ 193 million as at end of December 2008. Interest rates on government treasury bills have consequently also increased with some knock-on effects on bank lending rates (Tumusiime Mutebile 2009).

Uganda's economy has also for some time been boosted by the workers' remittances. As reflected in Table 5, the inflows from this source have ranged between US \$ 323 million in 2005 to US \$ 875 million in 2008. However the latest figures from Bank of Uganda (see New Vision 6 July 2009 p1) indicate that remittances from Ugandans working abroad, locally called "Nkuba Kyeyo," dropped by more than 56% from US \$ 800 million (UGX 1.6 trillion) to US \$ 350 million (UGX 735 billion) in the first quarter of 2009.

Table 5: Remittance Inflows (Uganda) 2003-2008 (US \$m)

Year	2003	2004	2005	2006	2007	2008	GDP (%) 2007
	306	311	323	665	849	875	7.2

Source: World Bank (March 2009)

Remittances are an important source of external capital for a low income country such as Uganda and as Velde (2009) suggests, it is important to monitor remittance and migration. The Current crisis is likely to reduce the flows of migrants from Uganda especially to developed countries. According to Massimiliano and Salvatore (2009) economic theory suggests that migration is driven by the difference between the expected wage obtained in the destination country and the actual wage earned in the source country. The migration stock may also be affected in that some migrants may lose their jobs and may not be able to find others, thus increasing the rate of return migrants.

The drop of workers' remittances has implications for development. In Uganda, for example, the construction sector highly benefits from remittances, as this is a labour - intensive sector and usually a relatively large employer. Second, as one of the main uses is consumption of goods and services, there may be direct effects on poverty levels if the affected households are close to the poverty line and remittances finance a fairly large share of their consumption. For example remittances account for nearly 10% of the total consumption expenditure of remittances - receiving households in Uganda (UBOS 2007). A new report by the Parliamentary National Economy Committee says that within the first half of 2008/09 Financial Year (July-December) the government lost US \$ 236.72 million (about UGX 514.5 billion) in private remittances that would have otherwise gone into the economy. The report also notes that an additional US\$ 258.64 million (about

UGX 562.2 billion) meant for NGOs and other insurance premiums was not remitted in the same period (*Daily Monitor 19 June 2009*). All these are indicators that the crisis will adversely affect Uganda's economy through its adverse effect on capital flows, particularly remittances, aid, FDI, exports, exchange rates and interest rates. As these resources decrease, investment, employment and economic growth will likewise be adversely affected.

c) Stock Market

The Uganda Securities Exchange (USE) all share index in the period July-October 2008 lost 39%. The month of October alone recorded the biggest loss of 28% (Tumusiime Mutebile, 2009). The fall in the share prices on the cross-listed stocks, which account for 61% of total shares explain the fall in the USE share index. The high percentage of foreign investors exiting, accounted for most of the decline in the USE index as investors exited to the so-called safe haven. The dip in the index according to Tumusiime - Mutebile (ibid) appears to have been primarily driven by panic and uncertainty among foreign investors rather than the change in microeconomic fundamentals of the listed companies.

d) Donor and Aid Flows.

Aid from donors has remained fairly stable though in December 2008, it fell short of the amounts observed for the same month in 2006 and 2007 (Tumusiime- Mutebile 2009).

However, the IMF (2009) asserts that there has been a decline in Uganda where foreign aid decreased from US\$ 223.29 million during 2007 to US\$ 178.9 million in 2008. Moreover, inflows to non-governmental organizations' (NGOs) has declined by 5.3% between 2007 and 2008, with the decline more pronounced since October 2008. In line with the general foreign aid decline, donor budget support has also been declining overtime. In 2008, it stood at 40.3% of total foreign aid, compared with 59.8% in 2007 (Ssewanyana et al 2009). This was reduced to 31.8% in 2008/09 FY and it is projected at 34.5% for 2009/10 FY according to the National Budget (MFPED, 2009). A good example is the Inspector General of Government (IGG) office which is an anti-corruption agency has experienced a reduction of donor funding from UGX 4.4 billion approved for the FY 2008/09 to UGX 574 million in the 2009/10 FY, which is a reduction of UGX 3.8 billion or 87 per cent (*Daily Monitor 21 July 2009, p6*).

On the whole, Uganda is more likely to register further declines in official development assistance (ODA), although there is no indication of this as yet from donors. An official from UK Department for International Development (DFID) indicated that the UK's aid to Uganda would continue in the post-crisis period because of earlier commitments, but stressed a need for the government to strengthen its governance (Velde, 2009). Therefore,

although until last year, serious cuts in development aid were not on the agenda of donor countries, the trend should not be taken for granted. There are fears that more donors could follow the examples of the Italian, Irish and Canadian governments who have reduced their aid budgets in recent months in the face of the crisis (Othieno, 2009). This is, very clearly, a major challenge for countries such as Uganda. Aid cut-backs are bound to have a substantial and negative effect on current programmes to reduce poverty and boost development.

e) Taxes

While the tax collections appears to perform well in nominal terms, adjusting for the impact inflation shows that revenue appears to have declined somewhat starting from July 2008 to January 2009 (Tumusiime-Mutebile, 2009). According to the March 2009 monthly report on the performance of the economy published by MFPED, total Uganda Revenue Authority (URA) revenue collection for January 2009 was UGX 184 billion below target. As of end of March 2009, total URA revenue collection was UGX 108 billion below target!! Similarly, the MFPED monthly report of April and May 2009 reveals that URA revenue collections for April and May amounted to UGX 293 billion and UGX 306 billion respectively. However, collections for the month of April performed below their projected outrun by UGX 13.2 billion, or by 4%. Likewise, collections for May also under performed, this time the projected outrun was short by UGX 21 billion, which was 7% below the target.

URA has since 2004 been reputed for exceeding its revenue collection targets. Although other factors such as corruption could have contributed to this decline, obviously the global financial crisis can not be ruled out since it has negatively affected the volume and value of trade. These preliminary indications of a decline in real tax revenues, if sustained, could have implications for Uganda's fiscal consolidation strategy. Government financing for economic growth is likely to suffer adversely owing to lower than projected tax revenues. Similarly, declining growth rates would mean falling government revenues, and this could endanger the welfare improvements achieved to date.

f) Relationship of multinational enterprises.

As Tumusiime-Mutebile (2009) has pointed out, at the micro level, there are potential risks on the real sector arising from the propagation of shocks experienced by parent enterprises on their subsidiaries. Parent companies based in developed economies facing subdued demand and/ or financial constraints due to the global financial crisis and recession that could force them to wind up operations globally are a potential source of

risk for the economy. So far, cases of closure of some firms have been reported, with adverse implications for loss of jobs (Ssewanyana et.al 2009). For example, the closure of fishing factories, the closure of Gateway Television-GTV (a cable TV service provider with a parent company in the UK), the down-sizing of Warid Telecom and Barclays Bank are cases in point in this regard. Closure of such subsidiaries operating in Uganda would have adverse effects on employment, demand for domestically produced inputs, taxes etc.

g) The Financial Sector

As a result of the crisis, Uganda's financial sector has been affected by the drop in demand for government securities, as investors retreat to safer destinations (Ssewanyana et.al 2009). For example the Bank of Uganda had to suspend a number of Treasury bill auctions in the first quarter of 2009. And in order to encourage lending the same bank recently cut its lending rate to the commercial banks by 3.4 percentage points, from 19.3% to 15.8% (BOU, 2009). The structure of Uganda's banking sector also raises concern. This is because about 80% of the banking business is foreign owned (by mainly South Africa, the UK, Nigeria and Kenya), which poses a potential risk to the economy, since the local banks may face difficulty as a result of their parent companies withdrawing funds to support operations abroad (IMF, 2009).

However, according to the Bank of Uganda (BoU, 2009) the banking sector remains sound and stable. The banks' capital adequacy ratios are well above the regulatory requirements. BoU admits that although Uganda is a home to subsidiaries in international banks, the local subsidiaries have no exposures to the subprime products of other toxic debts. Thus, for example, while Citi Bank International and Barclays Bank (Uganda) Ltd have their own capital base and no exposure to the toxic assets, the two subsidiaries have a stand alone capital requirements and are decoupled from the parents. Nevertheless, while solvency is not an issue, the global banking system has not wholly escaped being affected by the global financial crisis. In particular, the abrupt decline in capital inflows has contributed to the reduction of liquidity in the banking system. There is also some anecdotal evidence that some large local companies' access to credit abroad has been curtailed causing an increase in domestic demand for credit (BoU, 2009). This is further reflected by the nominal average interest rates which peaked at 23.2% in August 2008, but declined subsequently to 18.9% in January 2009.

However, the rates have since March 2009 increased to 20.9%. MFPED (2009) associates this increase to the corporate demand for locally loanable funds which went up following a switch by companies which were previously borrowing from abroad to the domestic banking system.

h) Employment

As we observed earlier, the majority of Ugandans (80%) derive their livelihood from agriculture which as Ssewanyana et.al (2009) point out will continue to provide employment in the biggest proportion of the population in the near future. However, the declining commodity prices could be a disincentive to person engaged in agricultural exports. In a similar manner, overall wage employment in the private sector is bound to reduce as long as business in this sector remains low. The services and industry sectors will also not be spared. For example the industrial sector performance grew by 3.8% in 2008/09 as compared to 9.1% in FY 2007/08. The MFPED (2009) attributed this reduction to slow growth of the construction subsector which is likely to have been affected by the declining worker's remittances.

The Daily Monitor of 17 June 2009 reported that businessman Hassan Basajabalaba had abruptly shut down two of his Regency chain of hotels in Kampala, and sent home at least 1000 employees, sending jitters in the hotel industry. Mr. Basajabalaba is reported to have told his associates that his hotel cash had been adversely affected by the recent global financial crisis which has seen room occupancy figures drop to an all-time low in less than twelve months. Furthermore, with remittances from Ugandans in the diaspora decreasing, which previously boosted the construction sector in Uganda and created a good number of jobs, the country will witness a contraction of jobs in this sector.

It has been documented under the employment literature (see UNDP 2000, ILO 2009) that the main economic cost of unemployment is foregone output and incomes. It aggravates the poverty situation directly through reduced incomes, consumption, and nutritional intakes. It leads to disserving and assets stripping, thereby reducing production and potential growth. The government loses potential revenue from income and other taxes. This in turn reduces capacity to provide social services and fight poverty.

Structurally, it leads to brain drain and to rural-urban migration, which turns rural under-employment into open urban unemployment. It also leads to slum development in urban areas. In addition, unemployment boosts crime and anti-social behavior such as theft, robberies, corruption, prostitution, drunkenness and other irresponsible behavior. It can lead to more serious crime such as drug and small arm trafficking. Already there are notable signs that these problems have begun disturbing the Uganda society. For example there is a tremendous increase in the rural-urban migration as people look for non-existing jobs in urban areas. Crimes involving both petty thefts and highway armed robberies are constantly being reported in the press. Likewise, prostitution by youthful girls and women is almost becoming a "profession" in the country's major urban areas

which is likely to cause further spreading of the deadly HIV/AIDS calamity. All these vices are likely to rise as a result of the increased unemployment levels in the country.

4. The Policy Responses

Velde (2009) has correctly pointed out that economic policy responses to address the fallout of the global financial crisis range from continuing business as usual or to embarking on a proactive approach. We should be ware that the magnitude, depth and coverage of the impact on the Uganda economy will of course depend on how the crisis evolves and develops in the coming months and years. However, it will perhaps be advisable not to wait for things to happen and events overtaken, but to take proactive measures by anticipating the outcomes and by being appropriately and adequately prepared for those possible outcomes.

The Government of Uganda has so far adopted a number of policy measures intended to mitigate the impact of the crisis. On the other hand however, other policy options still remain open. This section of the paper attempts to look at both windows:

(i) Implemented policies

a) National Budget

Based on the National Budget 2009/10 FY, the government has put mechanisms in place to mitigate the impact of the crisis. These include a fiscal stimulus in infrastructure, strengthening regional trade through infrastructure development and massive support to the agricultural sector through National Agricultural Advisory Services (NAADS) and the prosperity for all (PFA) programme (*Bona Begagawale*).

The FY 2009/10 budget strategic objective is to “Enhance growth, development and social transformation in an environment of macro-economic stability” The specific strategy emphasizes the following directions:

- Developing agriculture into a modern, efficient and highly productive sector.
- Developing an efficient industrial capacity that meets domestic, regional and international needs.
- Efficient infrastructure including all weather feeder roads, national trunk roads, rail and waterways together with a provision of reliable and affordable energy, and
- Skilled and health workforce.

The main priorities for FY 2009/10 budget include sectors which are quite important in the country's development and if well developed could assist in mitigating the crisis. These sectors include:

- Agricultural production and value addition;
- Transport infrastructure
- Energy infrastructure
- Human Development and
- Peace, security and good governance

The MFPED under the FY 2009/10 budget has allocated additional resources to the above sectors as outlined in Table 6:

Table 6: Allocation of Additional resources to priority Areas FY 2009/10

Sector	UGX (Bn)	Percentage
Agricultural Production and Value Addition	238.403	28
Transport Infrastructure	100.000	12
Energy Infrastructure	95.086	11
Human Development (Education & Health)	91.965	11
Security, Governance and Public Administration	323.441	38
Total	848.895	100

Source: MFPED (2009)

The additional funding to the priority areas particularly agriculture and transport infrastructure is considered as a stimulus that will lead to increased production, and stimulate regional trade while making the private sector more competitive, to take advantage of regional demands. It is further anticipated that these measures will consequently result in the creation of jobs to address the high unemployment in the country and which is likely to be exacerbated by the crisis.

b) *Agricultural Credit Facility (ACF)*

The Agricultural Credit Facility of UGX 60 billion announced by the Minister of Finance, Planning and Economic Development (MFPED) in the FY 2009/10 national budget is an agricultural stimulus. This credit facility is to be accessed by eligible farmers and agro-processors through commercial banks and Uganda Development Bank (UDB), for financing the acquisition of agricultural and agro-processing machinery and equipment. The general policy focus under the agriculture sector to improving production and productivity includes the right dimensions, namely: crop pests and livestock diseases, improving varieties

through better planting materials and breeding livestock, improving agricultural methods through irrigation, mechanization and moving up the value chain into agro-processing. Indeed modernizing agriculture is crucial for the structural transformation of the economy due to its contribution to employment, food security, foreign exchange earnings, agro-processing and tax revenue. Furthermore, it is growth in this sector that will stimulate growth in industry, through agro-processing exports and agro-related services sector.

c) *Taxation*

Given the current uncertainties surrounding the impact of the global financial crisis on businesses, the government did not increase taxes in the FY 2009/10 national budget. Also, as pointed out by the World Bank Country Representative (see *Daily Monitor* 30 June 2009), the current tax rates are at a reasonable level and raising rates would be increasing the risk of tax growth because that would discourage investment.

d) *Foreign reserves*

The Bank of Uganda has adjusted the sterilization mix to emphasise preserving Uganda's foreign exchange reserves. According to Tumusiime-Mutebile (2009), official reserves currently stand at US\$ 2.2 billion, a level that is sufficient to cover over 5 months of future imports of goods and services.

e) *Banking*

Given the uncertainty about the safety of some banks abroad, the Bank of Uganda has taken precautionary measures by investing in instruments issued by G7 governments and multinational institutions. In addition, the bulk of reserves are being held with central banks rather than commercial banks (Tumusiime Mutebile, 2009).

The policies and strategies so far taken by the government to mitigate the crisis are good. They will however become useless unless effectively implemented. The government therefore has the responsibility to ensure that all policies and strategies are vigorously implemented.

(ii). Other policy options

Although some policy remedies have been put in place, we are still uncertain on the period the crisis will last. Should the crisis become more pronounced on the

economy, government may need to take more difficult choices, which might include the following:

a) *Value for Money (VFM)*

Given the limited resources, government must allocate its resources to those priorities that will enable it to produce public goods that will stimulate economic growth and development. In addition, government should increase the focus towards improving service delivery and value for money (VFM) by (i) implementing efficiency measures. (ii) minimizing supplementary expenditures by adopting a zero-tolerance policy on supplementary requests outside the productive priority sectors. (iii) ensuring that funds allocated to the key priority investments is not veered to other areas of spending. These are important and very significant steps but to ensure that such measures have maximum impact, compliance and accountability would need to be strengthened. It is therefore imperative that the government reduces wasteful spending and targets its expenditure on productive –enhancing sectors that may fiscally stimulate the economy.

b) *Taxation*

With the reduced levels of business resulting from the crisis, government should take necessary steps to further improve tax administration and explore the avenues of reducing loopholes in the tax system, and in particular widen the tax base to include previously untaxed areas. Reports by Transparent International which ranked the Uganda Revenue Authority (URA) as the most corrupt tax collecting authority in the East African region should be thoroughly investigated (see *Daily Monitor* 8 July 2009).

c) *Task force*

As a means of further understanding the challenges of the current financial crisis and be able to make the right policy decisions in the short and medium term, a country specific taskforce to deal with the fall out of the crisis should be set up. This should be a broad-based body with representation from government, opposition, business, civil society and academia. The challenge before this taskforce will be to come up with practical recommendations in view of the crisis. Its mandate will perhaps be to recommend to the government various measures with objectives to:

- Mitigate the adverse impact of the crisis on the goods, services, banking and job markets in Uganda.
- Suggest policies to address adverse impact of the crisis on the poor and poverty situation.

- Help Uganda's productive sector remain competitive both in global and the domestic market in view of support initiatives of competing countries.
- Exploit emerging opportunities as global goods, services and job markets restructure and adjust and
- Give advice to be government to be proactively involved in any global initiative, in support of developing countries to confront the crisis.

d) The poor

This crisis is likely to hit the poorest and most vulnerable groups hardest. It will be a further set-back in the fight against poverty, pushing more people into poverty and malnutrition. Current estimates of the World Bank (2008) suggest that 1% decline in developing country growth rates traps an additional 20 million into poverty. The government's first priority in responding to the crisis must therefore be to support programmes that help protect the poor from what threatens to be a major human catastrophe. For example, the government should focus more on improving delivery of social services to rural areas where children, orphans and the elderly are more likely to be hard hit by a reduction in the resource envelope. This will however necessitate enhanced inspection of implementation of such services and programmes to ensure efficient use of public resources.

e) The external Debt

The volume of external debt has again reached US\$4 billion just four years after the Multilateral Debt Relief Initiative endorsed at the July 2005 G8 Summit in Gleneagles, Scotland. The Initiative saw the IMF, World Bank and the African Development Bank relieving the country of a debt burden of US\$ 4.7 billion down to US\$ 1.1 billion in March 2007. There is therefore no doubt that Uganda's external debt is rising very fast and at the current rate, it would tend to be unsustainable as the global financial crisis escalates. Government should inevitably avert this situation before it seriously deteriorates. One way of doing this would be to restrict the government external borrowing sources in the interest of debt management and sustainability.

f) Employees' mass lay-offs

Formal sector employee lay-offs will be an inevitable result of slackening labour demand. In many cases, these will be mass lay-offs of the magnitude that makes them major economic, political and social events; some of these are likely to involve government or state-sector employees. The lay-offs themselves may be unavoidable, but their consequences can vary depending on factors such as advance notice and

consultation, resettlement opportunities, and severance arrangements. Such lay-offs need to be managed fairly under the monitoring supervision of the government ministry responsible for workers.

5. Can Public Administration Play A Mitigating Role In The Crisis?

It is quite obvious that all the on-going and proposed policy responses to mitigate the crisis will require active participation by all public administration organs and by extension, all those people who constitute those organs. As it has always been in other historical periods of crisis, the role of the public sector cannot be ignored. The global financial crisis is likely to worsen the budgetary position of government. Government revenues are expected to suffer as economic activity slows and commodity prices fall. Potential declines in donor support and tighter financing conditions will likely impose further pressures on the national budget. At the same time, government might find it necessary to increase spending to protect the poor, and additional spending pressures may arise from currency depreciation and rising interest rates, which could raise external debt costs.

According to UNDP (2006) and Kauzya (2003) Public administration refers to:

- *The aggregate machinery (policies, rules,, procedures, systems, organizational structures, personnel etc) funded by the state budget and incharge of the management and direction of the affairs of the executive government, and its interaction with other stakeholders in the state, society and external environment.*
- *The management and implementation of the whole set of government activities dealing with the implementation of laws, regulations and decisions of the government and the management related to the provision of public services.*

Although public administration involves various stakeholders, the discussion in this paper is limited to public servants who work in government ministries, departments, local governments and agencies. The discussion is within the meaning of Article 175 of the Constitution of the Republic of Uganda (1995) which defines a public officer to mean “any person holding or acting in an office in the public service”. And the same Article defines “Public Service” to mean “Service in any civil capacity of the government the emoluments for which are payables directly from the Consolidated Fund or directly out of moneys provided by Parliament”.

The crisis-mitigating role of public administration is likely to be displayed through a number of channels, some of which will include the following:

a) *Efficient Service Delivery*

It is Self-evident that the success of the government in reducing the negative impacts of the global financial crisis will heavily depend on the abilities of those who work in

it. Consequently, it is ever more important that those who work in the public sector possess the highest levels of professional skill and the ability to understand and adapt to new situations created by the crisis.

Uganda will therefore require a public administration leadership which fully and truly understands its responsibility to society at large and which embraces a value system under-pinning its actions that will contribute to the accelerated economic and social transformation of the country.

An efficient, responsive, transparent and accountable public administration will not only be of paramount importance for the proper functioning of the nation; it will also be the basic means through which government strategies to achieve the crisis-mitigating policies will be implemented. Also because the public administration is one of the main vehicles through which the relationship between the state and civil society and the private sector is realized, sustaining a vibrant public service is a means towards achieving high-order development goals, particularly equitable growth, poverty reduction, peace and stability (UNDP, 2006).

The United Nations General Assembly emphasized the issue of public administration efficiency in its resolution 50/225 of 1996 by recognizing that:

“There is need for public administration systems to be sound, efficient and well equipped with appropriate capacities and capabilities through, inter-alia, capacity-building, promotion of transfer, access and utilization of technology, establishment or improvement of training professions for public services, strengthening of partnership of the public sector with the private sector and civil society, as well as providing an enabling environment for private sector activities”

Under the same calling, Article 10 of the Charter for Public Service in Africa adopted by the African Public Service Ministers at their meeting held at Windhoek (Namibia) on 5 February 2001 emphasizes that:

“ The public service shall ensure that the highest quality and the most effective and efficient services are provided by making optimal use of the resources at its disposal. It shall also take into account the resources and means that users have available to them to benefit from public services.

The public service shall make the necessary adjustments to the way in which its services are organized and operated, in order to respond, on a sustainable basis, to changing needs and the demands of the public at large. These adjustments must lead to better service delivery and must be informed by best practices in the application of the information and communication technologies”.

It is therefore clear that a lot will have to be done to make public administration an efficient, effective, responsive, transparent and accountable instrument in the struggle against the global economic crisis. In this regard, Draper (2003) advises that leaders in the public service will have to be more imaginative in their thinking and more creative

in their practice remaining conscious at all times of the demands placed on them by the public.

In an environment characterized by rising needs, partly because of the increasing population, and partly because of the scarce resources dictated by the crisis, public administrators face difficult challenges of setting spending priorities and maximizing the development impact of their spending. During downturns such as the current crisis, public administrators must be keen to achieve the virtues of a “a more for less” approach, ie delivering the same products or services for less cost. The MFPED has proposed measures to enhance public sector performance and achieve value for money.. Among the measures proposed include:

- Adherence to work plans and reporting
- Accountability - Quarterly Presidential Public Sector Round Table meetings to be set up to review the progress of implementation of departmental activities (See Budget Speech FY 2009/10).

Given the expected reduction in tax revenues, exports, foreign aid, remittances etc, the need for improved efficiency in the social budget implementation and resource management cannot be overemphasized. Here corruption and mismanagement within the public sector needs to be minimized to ensure more domestic resource mobilization, allocation and utilization which should minimize budget leakages.

b. Corruption

Corruption in Uganda has remained the major challenge in not only ensuring that public resources are utilized efficiently and prudently for the benefit of all Ugandans but most importantly in achieving the Millennium Development Goals (MDGs). According to the 2008 National Service Delivery Survey Report (UBOS, 2008), corruption is defined as “the use of public office for personal gain”. Corruption manifests itself in different forms including bribery, extortion, nepotism, fraud, influence peddling, theft of public funds or assets, causing financial loss, false accounting in public affairs etc. Corruption diverts public resources away from social sectors and poor people, increasing the cost of public services, lowering their quality, and often restricting access to such essential services as water, health and education. Corruption also limits the development and economic growth of a country and perpetuates the unequal distribution of power, wealth and resources (Oxfam GB, 2008). It is therefore unlikely that the ongoing and proposed policy remedies to mitigate the crisis will be of much use unless the corruption tendencies in the public administration of Uganda are checked.

The Global Integrity (March 2009) reported that Uganda loses UGX 510 billion (US\$ 258.6 million) a year through corruption and procurement. The report reveals that if Uganda can eliminate corruption in public procurement it would be able to save Shs 30 billion (US\$ 15.2 million) a year. Global Integrity further reports that in the assessment of the country’s Auditor General, procurement accounts for 70% of public

spending, of which 20% is lost via dishonest practices of government officials responsible for public funds (<http://commons.globalintegrity.org>). There have been tangible progress in establishing the required legal and institutional framework to counter corruption. But as observed by Transparency International (2009) these efforts have yielded limited results, and recent developments raise doubts about the sincerity of government efforts to effectively address corruption. In some cases, government actions and decision have clearly contradicted national anti-corruption policies. One however hopes that the recently established Anti-Corruption Court will gradually put the corrupt culprits on their knees.

c) *Wastage in public expenditure*

The need to reduce wastage in the use of public resources has always prevailed in government operations but this need becomes more pronounced during this severe period of the global financial crisis. Waste occurs when unnecessary and avoidable costs are born by the public sector. It can arise from many sources, such as weak capacity, low levels of management accountability, improper planning and corruption. The government therefore, through its public administration systems needs to take austerity measures to try and save on its resources. Corrective actions for wastage and leakage must be dealt with through improved control systems, better incentives against malpractices, and improved accountability at the critical parts of the public service chain of command. The savings derived from reduced wastage are potentially enough to cover the loss of tax revenue from exports and imports. And indeed, the credibility of public administration managers with regard to addressing the issues arising from the crisis depends on how they deal with the issues of wastage in the use of public resources.

One area of public concern is the use of the government fleet, both in its management and disposal. As indicated in Table 7, available data show that government expenditure on fuel, oils and maintenance of its fleet has increased from year to year. For example the expenditure rose from Shs 36.7 billion in FY 2004/05 to Shs 92 billion in 2006/07.

Table 7: Uganda Government Expenditure On Fuel, Oils And Lubricants And Maintenance (UGX .000)

Item	2004/05	2005/06	2006/07
Maintaining	17,596,302	22,492,709	68,538,035
Fuel, oils, & Lubricants	19,045,483	25,391,211	23,454,685
Total	36,641,785	47,883,920	91,992,720

Source: Ministry of Finance, Planning & Economic Development

In its editorial of 9 May 2009, the New Vision Daily reported that the government of Uganda in 2008/09 FY spent UGX 72 billion on fuel and maintenance of its fleet

estimated at over 12,000 vehicles. In comparative terms, it was almost a third of the budget vote for agriculture (UGX 230 billion) which is the main stay of the Country's economy, employing about 80% of the population. According to the Minister responsible for Public Service, under whose docket the government fleet falls, the blame goes to the public officials who flout procurement guidelines, leading to high wastage rates and their failure to use the vehicles' log books to monitor their movements. There might therefore be a need for an institution that can continuously monitor the use and effectiveness of the government operations, as to continuously remove waste in the management of public resources. Uganda perhaps needs to borrow a leaf from the Republic of Kenya which has imposed a moratorium on purchase of new motor vehicles, except for security purposes. And entitled government officers, including cabinet ministers in Kenya are now allowed only one vehicle whose engine capacity does not exceed 1,800cc (see Kenya National Budget speech FY 2009/10). In Uganda, government officials use vehicles ranging between 3,000cc and 4500cc. (*See Daily Monitor 27 July 2009, p5*).

d) Strategic Leadership

Leadership is clearly one issue that public administrators in Uganda have to realistically address if they are to survive and succeed in today's turbulent environment caused by the global crisis. The public service, in particular, needs a corps of individuals who, while operating within the framework of the rule of law, are able to apply visionary strategic leadership skills in tackling the challenges resulting from the crisis. With no clear sense of the length and depth of the crisis, contingency planning and enhanced monitoring of evolving economic and fiscal conditions will be critical. As the new reality takes shape, ministries departments, local governments and agencies must rethink their strategies.

As one of the means of mitigating the crisis, government ministries, departments, local governments and agencies must continuously focus themselves on accountable, results-oriented management. Public servants need to stick with practices that work and stop those that don't. Part of this entails a reassessment of their missions and strategies, and the entire mix of policy tools available to address national objectives. Because the public expects demonstrable results from the government, administrators need to increase strategic planning, address management challenges, use integrated approaches, and enhance their agencies' results-orientation. The crisis-mitigating spirit requires senior public administrators to cease from being routine operators and become strategic thinkers and this calls for increased innovation.

Conclusion

Uganda has made significant progress over the past ten years and it will be a big disappointment and possibly a shame if all the achievements are allowed to be swept away. The global economic crisis is therefore a source of uncertainty for Uganda, like for many other countries. The crisis is bound to affect government spending and revenues. It is also likely to put pressure on government spending to address social protection and restore growth. Indeed the loss of potential revenue as a result of the crisis reduces the government's fiscal space to finance social sector expenditure programmes such as education, health and infrastructure for poverty reduction.

It is therefore imperative that government with the full participation of public administrators moves in with mitigating policies which will work towards elevating the would-be adverse impact levels. The government which is under pressure to inject value in the economy needs to make strategic decisions and to improve controls.

With the advent of a modern state, public administrators or government officials in general have been and are seen as stewards of public resources and guardians of a special trust that citizens have placed in them. In return for this confidence, they are expected to put public interest above self-interest and deliver services to the population efficiently and effectively. By so doing, public administration will have played a significant role in mitigating the impact of the global financial crisis on Uganda.

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