

**Uganda**  
**Diagnostic Trade Integration Study**  
**under the Integrated Framework**  
**Concept Paper**

**Background**

1. The proposed Diagnostic Trade Integration Study (DTIS) is being prepared under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). The IF is a multi-agency, multi-donor program established by WTO trade ministers in 1996 to promote the integration of the least developed countries (LDCs) into the global economy. The participating agencies are the International Monetary Fund (IMF), the International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), the World Bank and the World Trade Organization (WTO).

2. The original IF entailed the preparation of a Needs Assessment for the eligible LDCs followed by a Roundtable or Consultative Group meeting to secure donor financing for the trade action plan. Progress in mobilizing donor support proved difficult, and the program started slowly. An independent review of the IF, completed in June 2000, highlighted both the absence of donor resources, as well as the lack of linkages to overall development strategies or programs. The outcome was the redefinition of the IF to ensure better integration of trade with national development strategies, complemented by a trust fund for IF activities financed by multilateral agencies and bilateral donors, with the latter being supplemented by resources of international agencies in terms of staff contributions.

3. The revised IF work program starts with the preparation of a DTIS, led by the World Bank. An important output of the DTIS is an action plan that lays out the policy and institutional measures, and investment and technical assistance needs that have been identified through the diagnostic work.

4. Uganda was among the group of 12 countries that went through the first IF process, for which a needs assessment was prepared. Uganda received funding of US\$300,000 under the first IF, which was used for the formulation of an Export Sector Strategy. With the objective of strengthening its efforts in promoting trade integration, the Government of Uganda (GOU) applied to participate in the second IF process, for which it was approved in June 2004.

**Objective**

5. In line with the terms of reference of the IF, the objective of the proposed DTIS is to identify key constraints, both internal and external, to the expansion of Uganda's trade, with a focus on how trade expansion can help reduce poverty in the country.

6. The importance of trade for poverty reduction is recognized by GOU in the most recent revision of its Poverty Eradication Action Plan (PEAP 2004/5-2007/8). Trade appears in 2 of the 5 pillars of the PEAP, the “Economic Management” and the “Enhancing Production, Competitiveness and Incomes” pillars.<sup>1</sup> Table 1 below presents those sections in the PEAP that pertain to trade. The coverage of the DTIS (paras.22-25) overlaps with most of the areas where policy actions pertaining to trade are indicated. The DTIS will aim to provide concrete actionable measures in these areas.

**Table 1. Trade and trade-related areas in the PEAP**

Strategic Objectives	Challenges/ Constraints	PEAP Outcomes/Indicators	PEAP Policy Action
<b>Pillar One: Economic Management</b>			
1.0 Macroeconomic stability consistent with rapid private-sector led growth	External debt ratio high, despite recent debt relief	1.4 Reduce external debt to sustainable levels	<ul style="list-style-type: none"> <li>• Implement programmes to boost export performance</li> </ul>
<b>Pillar Two: Enhancing Production, Competitiveness, and Incomes</b>			
2.1 Increased and more efficient private sector production		2.1.1 Total export as % of GDP	<ul style="list-style-type: none"> <li>• Maintain liberal trade policy</li> <li>• Minimize domestic and international barriers to trade</li> <li>• Harmonize activities under Strategic Export program (SEP) with PMA &amp; MTCS programs</li> </ul>
2.2 Increased and more efficient agricultural production	Tariff and non tariff barriers to Uganda’s exports	2.2.1 <ul style="list-style-type: none"> <li>• Agriculture export as % of total value of agriculture output</li> </ul>	<ul style="list-style-type: none"> <li>• Harmonize some of the current SEP with the PMA and MTCS programs and activities, co-ordinate by the MTCS Secretariat.</li> <li>• Focus SEP activities along the commodity value chain.</li> </ul>
2.3 Increased and sustainable fisheries production		2.3.1 <ul style="list-style-type: none"> <li>• Value of Fish exports (US\$m)</li> </ul>	Implement the 2003 Fisheries Sector Strategic Plan, which include, [ <i>inter alia</i> ]: <ul style="list-style-type: none"> <li>• Development of quality guarantees for fish exports</li> </ul>
2.5 Increase and more efficient production of non-agriculture goods and services	<ul style="list-style-type: none"> <li>• Limited infrastructure and security around tourism sites</li> <li>• Inadequate promotion of Uganda tourism resources</li> </ul>	2.5.2 Increased tourism revenues <ul style="list-style-type: none"> <li>• Number of tourist visiting Uganda</li> </ul>	<ul style="list-style-type: none"> <li>• Promote abroad of Uganda as a tourist destination</li> <li>• Promote diversification of tourism products including rural tourism, cultural routes, etc.</li> <li>• Training of staff in the tourism industry</li> <li>• Provide business development services for tourism, in cooperation with private sector</li> </ul>

<sup>1</sup> The other pillars are “Security, Conflict Resolution and Disaster Management”, “Good Governance”, and “Human Development”.

## **Economic Background**

### ***Economic reforms***

7. After gaining independence in 1962, Uganda went through an extended period of political turmoil beginning in 1971 until 1986 when the current president took power. The extended period of relative political stability since then has allowed the country to undertake an extensive and sustained economic reform program. This began with the Economic Recovery Program (ERP) in 1987 which was aimed at addressing deficiencies in Uganda's export competitiveness, introducing market reforms into its agriculture policy, attracting more foreign investment, and improving the effectiveness of fiscal and monetary policies. This was followed by strong macroeconomic stabilization policies, liberalization of key markets and sectors—including the foreign exchange market and the coffee and banking sectors—in the first part of the 1990s. During the second half of the 1990s, the focus of Uganda's development policies shifted to poverty reduction, complemented by further reforms including further liberalization of the trade regime, restructuring and privatization of electricity and telecommunications, tax reforms, liberalization of international capital account transactions, and strengthening of banking supervision.

8. Macro stability was achieved early in the 1990s (Table 2), and has been maintained since, although very recently the exchange rate and interest rates have become more volatile. By 2002, the far-reaching trade liberalization that had begun in the mid-1990s had resulted in an economy that was very open, not only by Sub-Saharan African standards but also by developing country standards. In fact, in 2003, tariff levels in Uganda were close to those in developed countries, and even lower for agricultural goods (Table 3).

### ***Growth and poverty reduction outcomes***

9. The economic reforms have been accompanied by a dramatic rebound in growth, helped in the early 1990s by buoyant coffee prices. This has enabled Uganda to attain one of the highest *per capita* real GDP growth rates in the world during the 1990s — albeit from a low base—of 2.8 percent compared to 1.7 percent for all developing countries. Largely because of the strong economic growth, the incidence of poverty in Uganda was reduced from 56 percent in 1992/93 to 38 percent in 2002/3.

10. Growth, still impressive, has slowed in recent years, from an annual average 6.5 percent in real terms during 1990/91-2000/01, to 5.8 percent during 2000-2004. The concern is not so much that growth is marginally slower (5.8 percent is still a very impressive rate of growth), but what underlies this slower growth and what the implications are for sustaining high growth in the future. These questions will be addressed in the CEM currently under preparation. The DTIS will focus on issues that complement those addressed in the CEM, specifically at how to enhance trade integration to contribute to growth of the economy.

**Table 2. Key Economic Indicators**

	1990/91	1995/96	2000/01	2001/02	2002/03	2003/04
<b>Real Sector</b>						
GDP (m. US\$)	1841.3	6144.2	5681.3	5859.8	6298.8	6859.0
GDP per capita (PPP, International \$)	716.1	963.2	1336.3	1403.2	1456.8	n.a.
Gross Domestic Investment/GDP (%)	15.5%	20.7%	18.6%	19.7%	20.7%	21.7%
Public Investment/GDP (%)	6.2%	4.5%	5.8%	5.3%	4.7%	5.2%
Private Investment/GDP (%)	9.3%	12.9%	12.4%	14.0%	15.6%	16.1%
<b>External Accounts (US\$m)</b>						
Exports of Goods & Services	202.1	747.1	736.3	733.5	797.5	1032.1
Imports of Goods & Services	731.9	1668.2	1205.5	1686.6	1809.1	2045.5
Current Account Balance excl. grants (percent of GDP)	-449.3 -24.4%	-500.0 -8.5%	-293.1 -5.2%	-779.3 -13.3%	-845.9 -13.4%	-804.0 -11.7%
Current Account Balance incl. grants (percent of GDP)	-187.4 -10.2%	-223.4 -3.8%	153.1 2.7%	-293.6 -5.0%	-387.9 -6.2%	-129.0 -1.9%
<b>Fiscal Accounts (% of GDP)</b>						
Revenues	7.7%	10.5%	11.3%	12.2%	12.2%	12.7%
Expenditures	22.8%	17.0%	21.8%	24.4%	23.0%	23.8%
Overall balance, excluding grants	-15.0%	-6.5%	-10.5%	-12.2%	-10.8%	-11.1%
Overall balance, including grants	-4.4%	-2.3%	-2.6%	-5.3%	-4.3%	-1.8%
<b>Prices, Exchange Rates (period average)</b>						
Inflation (CPI, annual average)	24.5%	7.5%	4.5%	-2.0%	5.7%	5.1%
Exchange rate (Shillings per dollar)	960.8	1012.8	1762.9	1755.0	1882.8	1934.7
Export Price Index (1990/91=100)	100.0	135.7	79.4	63.6	73.4	85.2
Import Price Index (1990/91=100)	100.0	123.2	99.8	95.3	104.4	113.3
Terms of Trade (1990/91=100)	100.0	110.1	79.6	66.7	70.3	75.2
<b>Social Indicators</b>						
Population (in millions)	16.7	20.1	23.8	24.4	25.2	25.9
Adult literacy rate (% people over 15)	57.3	62.9	68.0	68.9	68.9	n.a.

Note: All data on Ugandan Fiscal Year basis except for GDP per capita (PPP, international \$).

Source: Ugandan authorities.

11. While sustained higher growth is clearly essential for poverty reduction,<sup>2</sup> the benefits of high growth may not reach some of the poorest households. This is underlined by the finding of the recent Poverty Assessment (PA) by the World Bank<sup>3</sup> that there has been growing inequality in the country. The growing inequality is found: between rural and urban areas and regions (the latter in part caused by continuing conflict in the North); between household size groups (reflecting widening fertility differential between poor rural women and richer urban women); and between higher educated and lower educated households. Given these findings, the PA emphasizes that improving agricultural incomes would need to be a cornerstone of Uganda's poverty reduction strategy, in addition to increasing non-farm earning opportunities to absorb the rapidly growing labor force. In this regard, the DTIS aims to support GOU's poverty reduction

<sup>2</sup> There is abundant cross-country evidence on the strong positive relationship between GDP growth and poverty reduction. This relationship applies also to Sub-Saharan Africa (SSA). Demery and Squire (1996), for example, argue that the dominant factor responsible for changes in poverty in SSA during the 1980s is economic growth.

<sup>3</sup> World Bank (2005a).

efforts in its selection of sub-sectors—most of which are in agriculture (see below)—for more in-depth analysis.<sup>4</sup>

**Table 3. Uganda and Worldwide Trends in Tariff Protection**  
(Weighted averages, in percentage).

	1994	2000	2002
<b>Uganda</b>			
Agriculture, Forestry, and Fishery Products	17.25	2.49	2.81
Mineral Commodities	9.25	6.41	7.16
Manufactured Commodities	18.48	8.11	8.16
Other Commodities	29.78	14.95	14.33
<b>Developed Countries</b>			
Agriculture, Forestry, and Fishery Products	5.57	3.52	3.62
Mineral Commodities	0.33	1.36	0.01
Manufactured Commodities	8.05	5.38	4.86
Other Commodities	0.34	0.08	0.10
<b>Least Developed Countries</b>			
Agriculture, Forestry, and Fishery Products	35.40	8.25	7.10
Mineral Commodities	51.65	15.91	15.40
Manufactured Commodities	69.81	20.03	17.74
Other Commodities	44.12	15.79	14.96
<b>Sub-Saharan Africa</b>			
Agriculture, Forestry, and Fishery Products	7.79	14.70	6.58
Mineral Commodities	15.92	20.96	8.42
Manufactured Commodities	15.59	18.10	14.22
Other Commodities	27.14	22.39	18.00

Source: WITS, SIC classification, from Rajhi et al (2005)

### *Sectoral contributions to growth*

12. The DTIS takes as its basic premise that export growth is important for overall economic growth, which is evidenced by the experience of many countries, in particular the East Asian countries.<sup>5</sup> During the period 1990/91-2003/04, private consumption was the main driver of growth, being responsible for 67 percent of overall economic growth (4.2% of the 6.4% of GDP growth during that period), while exports of goods and services contributed around 21 percent, and private investment around 17 percent (Table

<sup>4</sup> A recent econometric analysis of the determinants of poverty in 24 low income countries over the period 1987-1996 found that exports—and in particular agricultural exports—as a share of GDP is negatively related to poverty levels. See *Ethiopia DTIS*, Volume 2, Trade and Poverty Chapter.

<sup>5</sup> Quite aside from the trivial accounting relationship whereby exports constitute one component of the gross domestic product (GDP) such that higher export growth leads to higher GDP growth, exports could also enhance overall economic growth through the positive externalities that are associated with exports, including economies of scale, and technological upgrading that is entailed in competing in international markets as well as enabled by the foreign exchange earnings from exports, all of which help raise productivity in the domestic economy.

4). Underlying these overall trends, however, has been a steady decline in the contribution of private consumption to growth, and increases in the contributions to growth from private investment and exports. The decline in the contribution of private consumption to growth, from 4.6 percent during the decade of the 1990s, to 3 percent in 2000/01-2003/04, probably reflects a return to more normal trends after high levels of private consumption in the post conflict period. This, however, also implies that for Uganda to sustain the high growth performance of the 1990s, the contributions to growth from private investment and exports need to be sustained. The CEM is addressing the issue of private investment growth, while the DTIS will focus on exports, although the two are obviously linked.

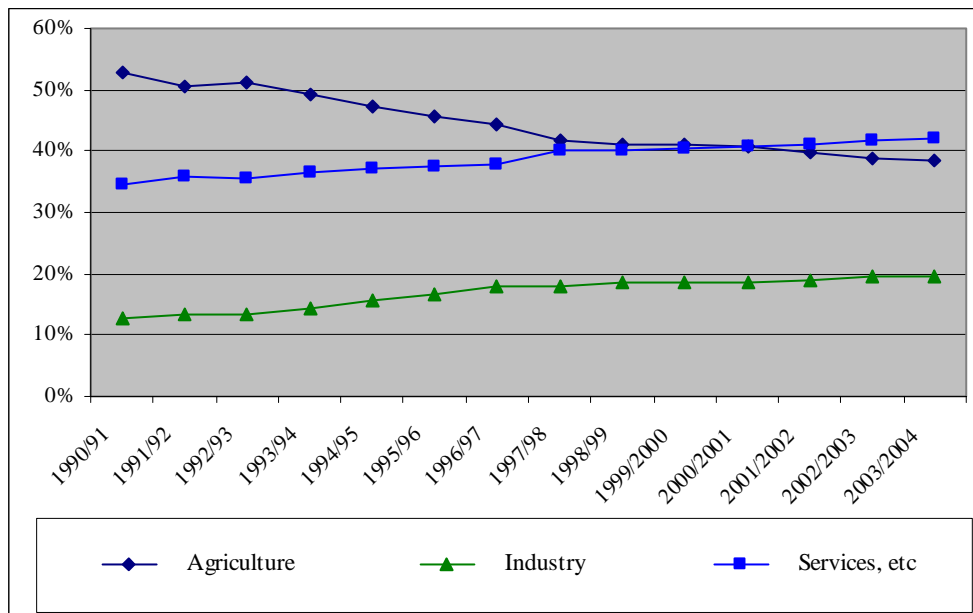
**Table 4. GDP by expenditure categories**

	1990/91- 2000/01	2000/01- 2003/04	1990/91- 2003/04
<b>Contribution to growth</b>			
Private Consumption	4.6%	3.0%	4.2%
Public Investment	0.1%	-0.1%	0.1%
Private Investment	0.9%	1.5%	1.1%
Government Consumption	0.8%	1.0%	0.9%
Exports of GNFS	1.3%	1.6%	1.4%
Imports of GNFS	1.3%	1.2%	1.3%
GDP	6.5%	5.8%	6.4%
<b>Contribution to growth in shares</b>			
Private Consumption	70.5%	51.4%	66.5%
Public Investment	2.1%	-1.0%	1.4%
Private Investment	14.4%	25.9%	16.8%
Government Consumption	12.7%	17.0%	13.6%
Exports of GNFS	19.9%	26.8%	21.3%
Imports of GNFS	19.7%	20.2%	19.8%
GDP	100.0%	100.0%	100.0%

*Source:* World Bank calculations based on Uganda Bureau of Statistics.

13. The high growth performance since the beginning of the 1990s has been accompanied by a structural change in the economy, with a steadily declining share of agriculture and increasing shares of industry and services (Figure 1). Services, in particular, have been the largest contributor to growth over the 1990/91-2003/04 period, being responsible for nearly half of the growth (3% of the 6.2% of GDP growth came from services during that period), and have taken over agriculture as the dominant productive sector in the economy (Table 5). Much of the growth in the services sector has been directed to domestic demand rather than exports, in light of the large contribution of private consumption to growth on the expenditure side. This further underlines the fact that sustaining long-term economic growth would probably require continued re-direction of the sources of growth towards more investment and exports, including services exports. The DTIS in selecting some services sectors to study in more depth will aim to support efforts on this front.

**Figure 1. Shares of productive sectors in GDP, 1990/91-2003/04**



Source: Uganda Bureau of Statistics.

**Table 5. Sectoral Shares of GDP and Contributions to Growth**

	Shares of GDP (in %)			Contribution to Growth			Average growth per annum
	1990/91	2003/04	Average 1990/91-2003/04	1990/91-2000/01	2000/01-2003/04	1990/91-2003/04	
Agriculture	52.8%	38.5%	44.5%	1.7%	1.5%	1.6%	3.7%
Industry	12.7%	19.4%	16.8%	1.7%	1.3%	1.6%	9.7%
Construction	5.9%	8.1%	7.0%	0.6%	0.8%	0.6%	8.7%
Gas, electricity, water	0.9%	1.4%	1.2%	0.1%	0.1%	0.1%	10.4%
Mining and quarrying	0.3%	0.7%	0.6%	0.1%	0.0%	0.1%	13.5%
Manufacturing	5.6%	9.2%	8.1%	0.9%	0.4%	0.8%	10.4%
Services, etc	34.6%	42.0%	38.7%	3.0%	2.8%	3.0%	7.8%
Total GDP				6.4%	5.7%	6.2%	6.2%

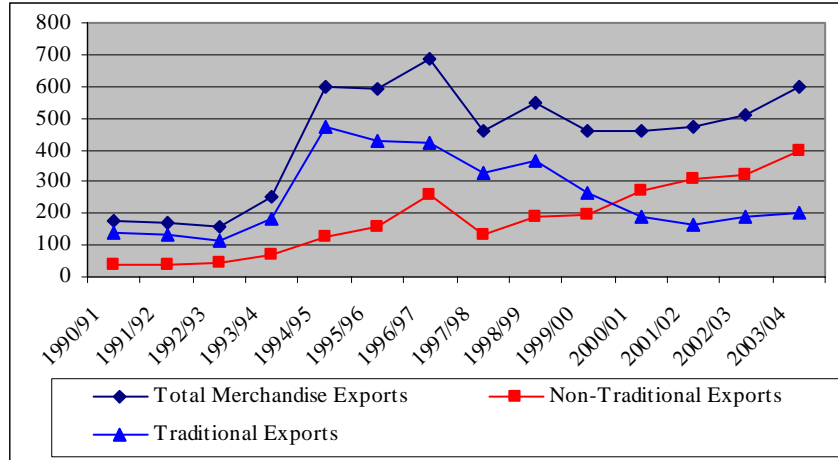
Source: World Bank calculations based on Uganda Bureau of Statistics.

### **Export Performance**

14. Uganda's export performance is dominated by merchandise exports, which accelerated during the first half of the 1990s, nearly quadrupling from US\$176m. to US\$684m. between 1990/91 and 1996/97. The high export growth during this period was driven by the acceleration in coffee exports, which in turn was fuelled by the boom in international prices during the first part of that decade. Coffee exports, which dominated Uganda's merchandise exports during the first half of the 1990s, peaked in 1994/95 at US\$457m., when it made up over three-quarters of Uganda's total merchandise exports. Since then, total merchandise exports had stagnated, with coffee exports continuing to decline, while non-traditional exports had been steadily increasing.

By 2000/01, non-traditional exports had surpassed traditional exports as the dominant export category (Figure 2).

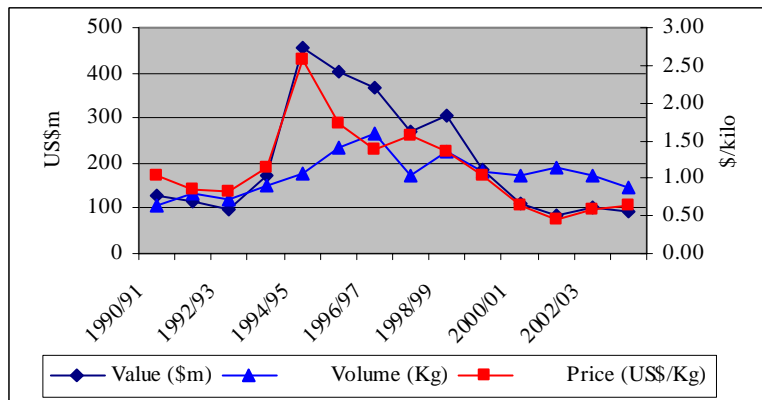
**Figure 2. Merchandise Exports: Traditional and Non-Traditional (US\$m)**



Source: Ugandan authorities.

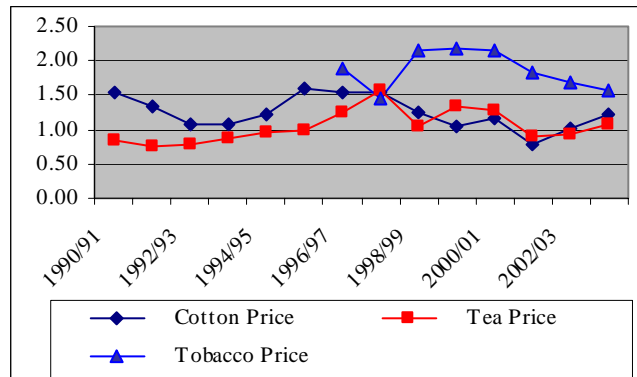
15. Among traditional exports, coffee alone experienced a steady and sharp decline in export prices since the mid-1990s (Figure 3), while export prices for the other commodities fluctuated (Figure 4). And, while coffee exports fell in both value and volume terms since the mid-1990s, the other commodity exports trended upwards such that all of them reached higher levels (in both value and volume terms) in 2003/04 compared to a decade ago (Figure 5).

**Figure 3. Coffee Exports: Value, Volume and Prices**



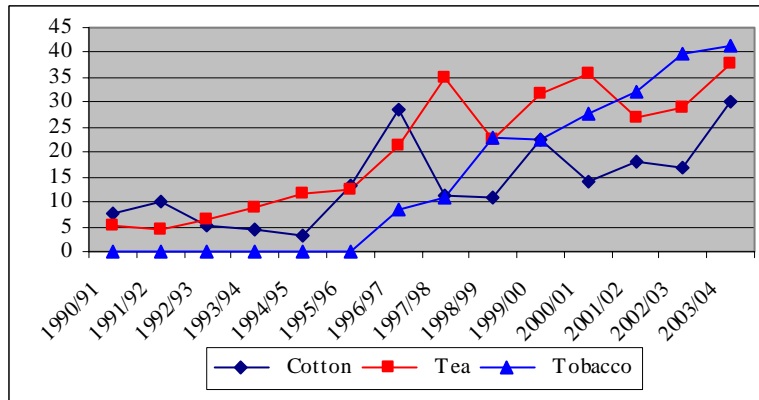
Source: Uganda authorities.

**Figure 4. Non-Coffee Commodity Export Prices (\$/kilo)**



Source: Ugandan authorities.

**Figure 5. Non-Coffee Commodity Exports (US\$m)**

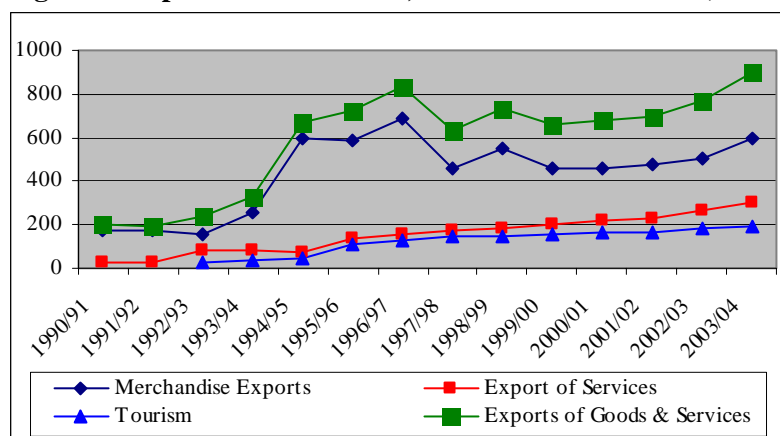


Source: Ugandan authorities.

16. Fish exports dominate non-traditional exports. In the ten years since 1993/94, fish exports increased 9 times from US\$11m. to US\$101m., overtaking coffee exports as the largest merchandise export item in 2003/04. Another emerging non-traditional export is cut-flowers, which rose between 4 and 5 times from a little over US\$5m. to nearly US\$24m. during the same period. The other major non-traditional exports—gold, electricity, cereals, hides and skins, cobalt, and beans—fluctuated without clear upward or downward trends.

17. Tourism is the dominant service export item, rising 8 times between 1992/93 and 2003/04, from US\$24m. in 1992/93 to US\$197m. in 2003/04 (Figure 6). By 2003/04, tourism had surpassed both coffee and fish as the top foreign exchange earner from merchandise and services exports.

**Figure 6. Exports: Merchandise, Services and Tourism (US\$m)**



Source: Ugandan authorities.

**Table 6. Composition of Exports (US\$m)**

	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
<b>Traditional Exports</b>											
Coffee	172.3	456.6	404.4	365.6	269.9	306.7	186.8	109.7	85.3	102.2	92.6
Cotton	4.3	3.3	13.2	28.6	11.4	10.8	22.5	14.1	17.9	16.9	30.2
Tea	8.9	11.8	12.5	21.3	35.0	22.7	31.9	36.0	27.1	28.9	37.8
Tobacco	--	--	--	8.6	10.8	22.9	22.4	27.6	32.3	39.9	41.5
Sub-total	185.6	471.7	430.1	424.1	327.1	363.1	263.6	187.4	162.6	187.9	202.1
<b>Non-Traditional Exports</b>											
Fish Products	11.1	17.0	37.5	34.6	28.0	47.6	18.7	50.2	82.1	83.8	101.3
Gold	--	--	--	110.5	25.5	28.0	39.4	58.5	56.7	48.2	41.5
Flowers	--	--	--	5.3	6.8	7.2	8.3	13.2	15.9	17.0	23.8
Electricity	--	--	--	8.1	12.0	12.3	13.8	16.7	13.9	15.6	14.3
Cereals	14.0	20.2	9.4	16.5	8.1	5.9	4.0	6.2	13.1	8.2	13.6
Hides and Skins	--	--	--	7.8	7.8	6.6	6.1	22.7	19.6	4.2	5.1
Cobalt	--	--	--	--	--	--	61.9	12.8	10.9	1.9	--
Beans	10.5	11.7	7.4	6.0	2.2	4.6	4.8	2.0	1.4	5.5	6.3
Others	32.7	74.8	105.9	70.6	42.0	73.9	39.3	88.7	97.4	135.6	188.8
Sub-total	68.3	123.6	160.2	259.4	132.3	186.1	196.3	271.0	311.1	319.9	394.8

Source: Ugandan authorities.

### **Informal Exports**

18. The export performance discussed above, which is based on official customs statistics, does not take into account the sizeable volume of informal cross-border trade between Uganda and its neighbors. A survey of informal cross-border trade launched by the Uganda Bureau of Statistics and the Bank of Uganda<sup>6</sup> estimated that informal exports amount to approximately 50 percent of official exports, while informal imports amount to about 4 percent of official imports. This underlines the importance of regional trade to the Ugandan economy.

<sup>6</sup> This survey is funded by the UK Department for International Development and the Bank of Uganda. The results are reported in Uganda Bureau of Statistics (2004).

19. Uganda is involved in cross-border informal trade with all five neighboring countries (DRC, Kenya, Rwanda, Sudan, and Tanzania). 63 percent of informal exports are agricultural exports, while 37 percent are industrial. Topping the list of informal agricultural exports are maize (19 percent of informal exports), beans (17 percent), fish (8 percent), other grains (7 percent), and bananas (3 percent). Among the leading industrial exports are re-exports of second hand shoes (7.5 percent of such exports) and second hand clothes (6 percent), as well as cement (3 percent). Maize and beans which together make up 36 percent of informal exports, are comparable in value to all informal industrial exports combined, which highlight the importance of such crops to the Ugandan economy.

20. Kenya dominates as the informal export destination, absorbing 71 percent of such exports from Uganda, followed by DRC (20 percent), Sudan (4 percent), and Rwanda and Tanzania (around 3 percent each). There may be strong potential for Uganda to expand exports and re-exports to Sudan in light of the recent peace settlement and the vast reconstruction and development needs of that country.

### **Coverage of the DTIS**

21. It is by now widely accepted that what is important for trade integration and in particular export expansion goes beyond policies and institutions that are directly related to trade (such as tariff and non-tariff policies, and trade policy making institutions), to a whole range of factors that have been called the “behind-the-border” agenda, or supply-side constraints. In a sense, all the factors that affect private investment would affect export supply responses as well as competitiveness. These factors could include virtually all aspects of the development agenda, ranging from education and health, to financial sector development, infrastructure, firm entry and exit regulations, governance, the legal framework, and taxation. In accordance with the terms of reference for the DTIS, and based on extensive consultations with the various stakeholders in Uganda including representatives from government ministries, the private sector, donor organizations, and civil society organizations,<sup>7</sup> this DTIS will cover the following subset of the agenda.

22. With respect to *internal constraints* to trade, the DTIS will address both cross-cutting and sub-sectoral issues. The *cross-cutting* issues are: (i) the macroeconomic environment and its impact on competitiveness and trade; (ii) domestic trade policy including Uganda’s participation in various regional trade agreements (RTAs), the conflicts arising thereof, and the resulting impact on its incentive regime; (iii) the institutional framework and capacity for trade policy and trade development; (iv) the key elements of the investment climate; (v) Uganda’s capacity to meet international product standards for exports; and (vi) its transport and trade facilitation capacity including customs;

23. Addressing these cross-cutting issues may not be sufficient if there are *sub-sector specific constraints* to trade. Therefore, in addition, the DTIS will select a few sub-

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<sup>7</sup> The Aide-Memoire for the Preliminary Mission for the Uganda DTIS provides the list of organizations consulted.

sectors for more in-depth analysis of the constraints to, and opportunities for, export expansion. The sub-sectors are selected based on two criteria: their potential for export expansion, and/or they are important for poverty reduction. These are: (i) traditional export crops—coffee, cotton, tea, and maize; (ii) non-traditional exports—floriculture and horticulture, and fish and fish products; and (iii) services—tourism, ICT, and transit trade.

24. With respect to *external constraints* to trade, the DTIS will review issues pertaining to access to both developed and developing country markets, including the implications of the ongoing WTO negotiations, and issues with respect to preferential trade agreements and the negotiations of the Economic Partnership Agreement (EPA) with the European Union (EU).

25. The DTIS will provide recommendations for addressing constraints identified in the above areas for enhancing Uganda's trade integration. In addition, the report will analyze and—to the extent possible (data permitting)—quantify the impact on poverty of trade and trade policy changes coming from the recommendations in the report. The findings will be summarized in a prioritized and sequenced action plan that lays out the policy and institutional changes, the capacity building needs, and the investment requirements for removing bottlenecks and seizing opportunities to promote the integration of Uganda into the global economy.

### **Relationship to other studies and support**

26. There is a large amount of existing trade and trade-related studies on Uganda.<sup>8</sup> With respect to the topics that will be covered (listed in previous section), the DTIS will take into account the existing base of knowledge from these studies, and update the analysis and recommendations where relevant because of developments since these studies have been undertaken, or because of gaps in them. The DTIS will also take into account existing support on trade and trade-related activities that Uganda is already receiving from donors and multilateral agencies, to avoid duplication of, and to ensure consistencies in, efforts.

27. The World Bank is undertaking the DTIS at the same time as another major economic report, the Uganda Country Memorandum (CEM). Given that the main focus of the CEM is on growth, and the importance of trade in growth, the two economic reports have been designed to complement each other. The team leaders of the two tasks have been coordinating closely to ensure there is no duplication in efforts, to pool resources where applicable, and to ensure adequate coverage of key issues that affect both the trade and growth fronts. Given Uganda's landlocked status, its growth prospects need to be addressed in the context of the East African Community. The CEM will cover this aspect focusing on EAC food markets and Kenya's infrastructure. The DTIS will

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<sup>8</sup> A recent compilation has been made by Zake (2005), which reviewed over 120 trade and trade-related reports prepared from 1990 onwards till the present undertaken by government ministries and agencies, development partners, and business associations. This review does not include the 65 studies that have been covered in an earlier report, Nyakoojo (2002).

incorporate relevant analysis from the CEM in this regard. The CEM will also draw on the transport and trade facilitation (TTF) analysis in the DTIS that will address TTF issues with respect to EAC.

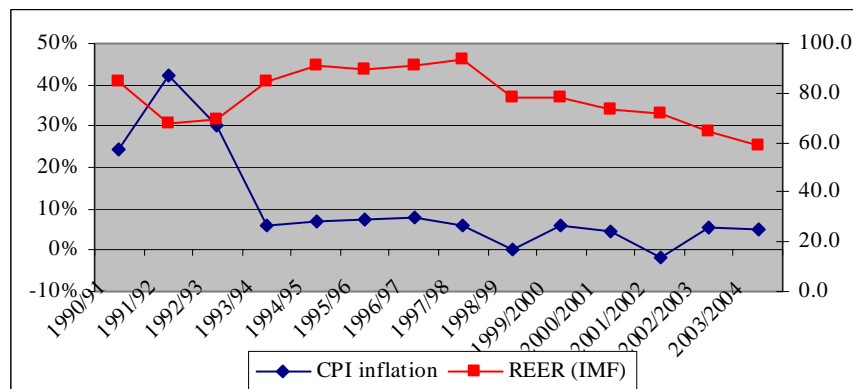
28. The rest of this paper presents the topics that will be covered in the DTIS.

### **Macroeconomic Environment and Challenges**

29. The key macroeconomic factors important for exports are low levels of inflation, and a stable and competitive real exchange rate.<sup>9</sup> Low levels of inflation are important for encouraging private investment, which in turn is the source of export growth. Exchange rate volatility creates a risky business environment in which there are uncertainties about future profits and payments. These risks are especially exacerbated in countries where financial instruments for hedging against foreign exchange risk are not developed, which is the case in many developing countries including Uganda.

30. As discussed earlier, Uganda has achieved and maintained macroeconomic stability since the early 1990s. This is reflected in the large decline in inflation in the first part of the 1990s and low levels of inflation since then (Figure 7). After a period of relative stability during the mid-1990s, the real effective exchange rate (REER) has been steadily depreciating from the end of the 1990s, which reflects in part the decline in international coffee prices given the importance of coffee in Uganda’s overall exports.

**Figure 7. Inflation and REER**  
(percent changes in CPI; REER = 100 in 1990)



Sources: CPI inflation from Bank of Uganda; REER from IMF.

31. Notwithstanding these macroeconomic achievements, the Ugandan authorities are concerned with the challenges that continued high inflows of aid present for macroeconomic management. Sterilization of aid inflows requires either raising domestic interest rates or appreciation of the real exchange rate, or likely a combination of the two. Higher domestic interest rates discourage private investment, while appreciation of the real exchange rate could potentially undermine export growth and long-term productivity performance (the “Dutch Disease” effect). The DTIS will draw

<sup>9</sup> See World Bank (2005b).

on the contribution by the IMF, and analysis in the context of the CEM, to address the issue of appropriate macroeconomic management to mitigate these potential effects of high aid inflows on private investment and exports.

## **Domestic Trade Policy Regime and Regional Trade Agreements**

### ***Tariff policies***

32. As mentioned earlier, Uganda has undergone substantial trade liberalization such that by 2002, the level of tariff protection was comparable to even those in developed countries. Uganda's trade regime changed with the adoption of the Common External Tariff (CET) of the East African Community (EAC) in January 2005. The CET has 3 tariff bands: 0 percent for raw materials and capital goods; 10 percent for intermediate goods; and 25 percent for final goods. Adoption of the CET raised Uganda's maximum tariff from 15 to 25 percent, and the average tariff from 7.2 to 18.4 percent. In addition to tariffs, Uganda also affords protection to some sectors and sub-sectors by imposing excise taxes on a discriminatory basis. On the other hand, Uganda also grants exemptions from import duty, which reduces protection to sectors.

33. The DTIS will review current tariff policies in Uganda, including other duties and charges, domestic taxes, as well as exemptions. This part of the work will draw on the forthcoming WTO Trade Policy Review (TPR) which will be undertaken around the same time.

34. In addition, the DTIS will examine the impact of the adoption of the CET on the incentive regime, and in particular the anti-export bias, in Uganda by analyzing the changes in nominal and effective rates of protection, as well as changes in the dispersion of protection, taking into account excise taxes and exemptions. This part of the study will draw on the recent analysis by Rajhi et al (2005). The DTIS will provide recommendations for reducing distortions in incentives.

### ***Non-tariff policies***

35. In addition to tariffs, non-tariff policies could also distort production incentives in a country. The DTIS will review the current status of such policies in Uganda, including possible import restrictions and licensing, government procurement measures, and other measures. The DTIS will draw on the forthcoming TPR by the WTO for this part of the study, and provide recommendations to address distortions that may arise from such policies. In addition, the DTIS will also review trade policies by sector to identify constraints to trade at the sectoral level, and the status of implementation of WTO commitments at the sectoral level where they apply. This part of the DTIS will draw on the forthcoming TPR by the WTO.

### *Export policies*

36. Distortions to production incentives could arise from restrictions on the export side such as export taxes or export bans. The DTIS will draw on the forthcoming TPR to review the current status of export policies, and provide recommendations where applicable to address distortions that may arise from such policies.

### *Regional Trade Agreements*

37. In addition to the EAC, Uganda is also signatory to the Common Market for Eastern and Southern Africa (COMESA).<sup>10</sup> The simultaneous participation in COMESA and EAC poses a number of challenges for trade policy makers in Uganda. As a start, there are real conflicts regarding the different CETs under the two RTAs. The CET for COMESA consists of 4 bands: 0 percent, 5 percent, 15 percent, and 30 percent on capital goods, which are different for those for the EAC. There are also potential conflicts in the application of different trade standards and border procedures. At some point, Uganda would be faced with the dilemma of which RTA to go with, given their inconsistencies with each other.<sup>11</sup>

38. The DTIS will address the challenges confronted by Uganda in being members of two RTAs by evaluating the relative advantages and drawbacks of pursuing regional integration through these two RTAs. Pertinent questions relate to the size of trade flows with respect to partner countries in the two RTAs, impact of the tariff structure on domestic producers, consumers and the government's budget, as well as the potential conflicts in the application of different trade standards and border procedures. The DTIS will draw on the recent study on tariff policy mentioned above (Rajhi et al, 2005), and update and extend this work in. Potential conflicts between RTAs in the areas of trade standards and customs administration will also be investigated in collaboration with the DTIS team members involved in those areas of work.

### **Access to external markets and trade preferences**

39. In addition to domestic policies (both trade and non-trade), a country's trade performance can also be affected by the international trading environment. The DTIS will address the question of whether foreign countries' trade policies help or hinder Uganda's integration into the world economy. The main export destinations for Uganda in 2003 include developed and developing countries, with the latter being mainly neighboring countries (Table 7). There could be market access issues with respect to both groups of countries.

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<sup>10</sup> Members of COMESA are: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

<sup>11</sup>The conflict arising from being a member of COMESA and a member of EAC is not confined to Uganda alone, but also affects Kenya, and possibly Burundi and Rwanda which have applied for EAC membership, and also possibly Tanzania which is considering re-entering COMESA.

**Table 7. Export Destinations, 2003  
(share of total exports)**

By regional grouping		Top ten export destinations	
COMESA	27.7%	Kenya	14.7%
Other Africa	8.6%	Switzerland	13.7%
European Union	26.3%	Netherlands	9.2%
Other Europe	14.8%	United Kingdom	6.3%
North America	2.7%	Rwanda	3.9%
Middle East	3.5%	Spain	2.7%
Asia	9.3%	Singapore	2.6%
South America	0.1%	Sudan	2.6%
Rest of World	7.0%	Belgium	2.4%
		Democratic Republic of Congo	2.4%

Source: Uganda Bureau of Statistics 2004 Statistical Abstract.

### *Developed country market access*

40. In general, the most favored nation tariffs Uganda faces in OECD markets are low on average, but these countries impose significant tariff peaks and have escalated tariff structures on the one hand, while offering a variety of non-reciprocal preferences on the other. The record in other African countries has been a very uneven use of preferences, sometimes due to different administrative barriers imposed by importing countries, and sometimes due to supply-side constraints in exporting countries. The DTIS will evaluate the effect of border barriers in OECD markets on Uganda's exports and the extent to which exporters take advantage of preferences. The DTIS will recommend ways that the government and exporters can increase their access to foreign markets, suggesting which should have higher priority and which should be accorded lower priority.

### *WTO negotiations*

41. The DTIS will provide estimates of the potential impact on preference margins for various tariff reduction scenarios for manufactures and agriculture. Attention will be paid to losses that may arise as a result of the end of the Multilateral Fiber Agreement (for example, is Uganda gaining anything on the African Growth Opportunity Act—AGOA—it could lose). Potential losses (as a share of total exports or as a share of exports in the sector) will be derived for each product to estimate the cost of preference erosion in each sector and to Uganda as a whole. If the costs of preference erosion are found to be significant either for the economy as a whole or for individual sectors, the DTIS will suggest mitigation measures that could be used to compensate Uganda for losses.

42. Negotiations with respect to services liberalization. The DTIS will select a few sub-sectors to undertake in-depth analysis of the impact of liberalization on foreign presence/market structure/contestability over time, and on the performance of these sub-sectors. This analysis would contribute towards the development of recommendations to GOU with respect to regional and multilateral services trade agreements. As a start, the

banking sector is selected for this analysis; the analysis may be extended also to the insurance sector, as well as telecommunications. For this part of the study, the DTIS will draw on a research effort by the World Bank's Development Research Group (DECRG) that is being launched around the same time as the DTIS.

### ***Negotiations of the Economic Partnership Agreement (EPA) with the EU***

43. An emerging issue with respect to preferential agreements concerns the ongoing negotiations of the Economic Partnership Agreement (EPA) with the European Union. First, the DTIS will estimate the impact of converting Uganda's trade preferences with the EU into an EPA. Second, the DTIS will identify the main issues for Uganda in these negotiations with respect to goods trade, services trade, and the Singapore issues (in particular investment policy), and provide recommendations on how Uganda can try to maximize the benefits it could derive from an EPA. Third, the DTIS will also address the complications arising from Uganda negotiating the EU-EPA with the COMESA group while being a member of EAC.

### ***Developing country market access***

44. The DTIS will review whether there are issues with respect to accessing developing country markets that could be important for Uganda's exports. In light of the importance of regional markets for Uganda's exports as discussed earlier, the DTIS will analyze the effects of being members of EAC and COMESA on Uganda's trade. This part of the study will be closely coordinated with the work on RTAs (paras.37-38).

## **Institutions for Trade Policy and Export Development**

### ***Trade Policy Institutions***

45. Having adequate capacity for trade policy-making is important for promoting trade integration in a way that is beneficial for Uganda. Such a capacity would help Uganda evaluate the impact of various trade proposals on its economy and people, based on which to help determine its positions in the various regional and multilateral trade negotiation forums it is participating in.

46. Trade-policy making in Uganda is fragmented, with the Ministry of Tourism, Trade and Industry (MTTI), the Ministry of Agriculture, Animal Industry and Fishers (MAAIF), the Ministry of Finance, Planning and Economic Development (MFPED), and the Ministry of Foreign Affairs (MOFA) all being involved. The DTIS will: (i) take stock of the current status of trade policy making in Uganda; (ii) evaluate coherence of trade policy-making within the Government; (iii) review adequacy of consultations with the private sector and civil society organizations in trade policy-making; (iv) assess capacity for trade policy-making and trade negotiations, the latter for both regional as well as the multilateral arrangements; and (v) based on (i)-(iv) provide recommendations for strengthening trade policy making in Uganda.

47. As mentioned earlier, promotion of trade integration requires tackling a host of issues outside of the narrow confines of trade policy-making. This requires an effective inter-institutional mechanism to address the wide range of trade and trade-related issues. The DTIS will review the adequacy of the existing inter-ministerial coordination mechanism with respect to the behind-the-border agenda for engendering export supply responses, and provide recommendations for strengthening/institutionalizing such a coordination mechanism.

48. The situation in Uganda is further complicated by the existence of several government strategies, policies, and programs that pertain to trade. These include, in addition to the PEAP, the existing Strategic Export Program, the Medium-Term Competitiveness Strategy, the Plan for Modernizing Agriculture, the Presidential Investors Roundtable, and the forthcoming National Trade Policy, the Export Development Strategy, and the Industrialization Policy. The DTIS will review the functions of these various strategies, policies and programs with a view to their harmonization, where applicable and possible.

49. Finally, one of the main objectives of the IF is to ensure better integration of trade into national development strategies. This requires the presence of institutional mechanisms that provides for this integration. In this regard, the DTIS will review the existing mechanism for integrating trade issues into Uganda's PEAP, and provide recommendations for strengthening/institutionalizing this mechanism where necessary.

### ***Export Development Institutions***

50. Many developing countries have institutions set up for the purpose of export promotion. Typically, there exist many such institutions in one country, many of which do not perform their function of export promotion very well. Uganda appears not to be an exception in this regard. The DTIS will: (i) review the current status of such institutions in Uganda; (ii) assess their effectiveness in promoting exports; and (iii) provide recommendations for the kind of institutional support necessary for strengthening export promotion in Uganda.

### **Investment Climate, Export Diversification and Competitiveness**

51. As mentioned earlier, virtually all the factors that pertain to the investment climate are important for trade integration. The World Bank has recently (August 2004) completed an Investment Climate Assessment (ICA) for Uganda which covers the key constraints in the business environment. The DTIS will summarize the main findings of this report.

52. In addition, based on the firm survey data collected for the ICA, the DTIS team plans to undertake further analysis on issues constraining export diversification and competitiveness in Uganda. This will be done in conjunction with/in the context of analytical work planned under the CEM to review current GOU policies for developing

manufactured exports and the international experience in industrialization policies and export growth.

### **Product Standards**

53. There has been a proliferation of, and rising stringency in, products standards in international trade in recent years. It has become essential for countries to have the capacity to meet such product standards if they want to be players in today's increasingly competitive international markets.

54. The DTIS will assess how standards and related capacities for food safety, agricultural health, and quality management are affecting Uganda's trade, and identify priority technical assistance or other capacity-building needs in these areas. More specifically, the work will:

- assess how Uganda's exports/imports of agricultural and food products have been impacted by food safety, agricultural health, and quality standards;
- identify and characterize the major sanitary and phyto-sanitary (SPS) (and quality) issues faced by Ugandan producers and exporters and efforts made to address these;
- examine the nature/extent of prevailing strengths/weaknesses in SPS and quality management and identify several near- and longer-term priority capacity needs;
- assess the extent to which Uganda has engaged in regional efforts to enhance capacity and overcome constraints and the success of such initiatives.

55. The analysis will start with a broad mapping of Uganda's agricultural and food exports, identifying key trends and pertinent challenges related to food safety, agricultural health, and quality management. This, together with the notion of a 'hierarchy' of SPS/quality management functions—ranging from basic awareness and the application of 'good' agricultural and manufacturing practices to more sophisticated technical and negotiation functions—will provide a framework for the remainder of the study.

56. Several approaches to the work and dimensions of the standards field will be pursued. This will likely include the following:

- i. Identifying several cross-cutting SPS capacity issues—for example, certification and accreditation capacity, systems of disease or pest surveillance, promotion of Hazard Analysis Critical Control Point (HACCP) principles in the food industry etc –and making these the focus of one or several thematic case studies.
- ii. Attention will be focused on commodity sub-sectors which have strong export potential and are facing important SPS-related challenges/opportunities, specifically fish and fish products, floriculture and horticulture (these are also the sub-sectors for which detailed analysis will be undertaken in the DTIS). Recent experiences, current strategies, outstanding issues, and the apparent options for maneuver will be highlighted.

- iii. Reviewing prior analyses on quality management issues faced in Uganda’s major agricultural export crops—coffee, cotton, tea, and maize—and, where possible, providing an update of the current status and outstanding issues and needs.
- iv. Examining Uganda’s involvement in regional efforts to build SPS capacity, harmonize standards and otherwise overcome the trade impacts of standards. These will include standards-related work in the Codex Regional Committee for Africa, joint efforts by the Tanzanian, Kenyan and Ugandan governments to manage food safety and other issues associated with the Lake Victoria fishery, and other aspects. The aim is to identify areas where progress has been made and where problems have been encountered, with a view to potential foci and mechanisms for technical support.
- v. Providing a broad assessment of past and current efforts to enhance SPS capacity in Uganda, building on existing work.<sup>12</sup> This will characterize the current state of capacity in Uganda and areas already identified for capacity development. The focus here will be on capacity development and needs within the public and private sectors and the nature and extent of technical and other forms of donor support. The outcome is expected to be some form of prioritized list of unresolved issues where further capacity development is needed and some indication of appropriate ways in which these might be addressed.
- vi. Attempting to assess the magnitude (in qualitative terms) and direction of any impacts of food safety and plant and animal health standards on Uganda’s trade in agricultural and food products. This will include export flows to major foreign markets and impacts of developments in domestic SPS capacity on imports, for example through the procurement practices of supermarket chains such as Shoprite. In turn, this will provide some indication of the broad economic benefits to Uganda of developments in its food safety and agricultural health management capacity.

57. This part of the work will be done in close coordination with the work that is being launched under the WTO’s Standards and Trade Development Facility to develop a cost/benefit methodology for assessing developing countries’ capacities to improve their SPS infrastructure, for which Uganda has been selected as a pilot.

### **Transport and Trade Facilitation (TTF)**

58. Moving goods from the point of production to their final destination expeditiously and cost-effectively is certainly an important factor underlying the export competitiveness of a country. Country-level evidence has also indicated that transportation is the single most important component of cost for exporters in some developing countries.<sup>13</sup> This issue is particularly pertinent for Uganda given its landlocked status.

59. The DTIS will undertake a comprehensive review of the situation in Uganda in terms of cost and effectiveness of transport services and administrative procedures related

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<sup>12</sup> Including World Bank (2003).

<sup>13</sup> Tsikata (2003).

to international trade. This part of the work will be done in close coordination with the work undertaken on Customs (see next section).

60. The DTIS will begin by providing an overview of the transport logistics pattern in Uganda, including quantitative information (volumes and values) of the various modes of transport (road, rail, ferry and air), and a mapping of the routes within Uganda from the production centers to the international gateway for the main export goods and services that will be addressed in more depth in the report. These are, specifically, fish, cut flowers, tourism, coffee, cotton, tea, and maize. The DTIS will focus its analysis on the following.

61. First, *transportation costs*. Specifically, the DTIS will:

- derive estimates of transport costs for the various modes of transport associated with the movements of products (imports and exports and transit goods), distinguishing between international and national costs;
- compare transport costs with those in neighboring countries and countries in the region to evaluate Uganda's competitiveness with these countries with respect to transport costs;
- assess the factors behind the high costs of fuel in Uganda, and identify reasons behind the high costs;
- estimate the relative importance of transportation, fuel and logistics costs (see below) in raising the cost of production and trading;
- identify the policy, institutional, market structure, and other factors that raise transport costs for Uganda; in this context, review the ongoing the status of privatization/concession of the railway.

62. Second, *trade facilitation*. The DTIS will:

- review procedural and documentary requirements for moving goods through borders or in transit operations from gateways in Uganda or in transit countries (Kenya and Tanzania), including the magnitude of delays of trade operations at various stages of the supply chain for imports, exports, and transit goods (this part of the work will be drawn from the work covered under Customs—see next section);
- assess the availability and quality of transport logistics services (clearing, forwarding, and insurance), the market structure of these services and integration with other activities (for instance haulers and forwarders).

63. Third, *transit trade services*. The DTIS will review the potential for, and constraints facing, Uganda in developing regional transit transport services for neighboring Rwanda and the Democratic Republic of Congo, and for Sudan.

64. Fourth, *TTF needs for Sudanese trade*. There is potential for substantial expansion of trade with Sudan in light of the recent peace settlement there. The DTIS will highlight possible TTF issues that need to be addressed in this context.

65. The importance of providing those living in remote rural areas access to domestic markets as a first step towards helping them integrate into the world economy has been documented in many of the DTISs undertaken to date. In this light, and given the geographic location of some of the export products listed above, the DTIS will not just focus on main transport corridors but also on the feeder/rural roads that provide access to the main transport corridors.

66. The DTIS will derive concrete actionable measures to address bottlenecks and distortions identified in the analysis described above. Special attention will be paid to identifying any TTF needs that may not be adequately addressed under existing or forthcoming support, including the East Africa Trade and Transport Facilitation Project by the World Bank. The proposed measures could include policy, regulatory and institutional reforms; private sector development in the provision of transport services; introduction of modern information and communication technologies related to transport and trade; key investments to improve trade potential; and technical assistance measures including training needs.

### **Customs**

67. Customs is an important element of trade facilitation, and weaknesses in customs have been identified as one of the main constraints to trade integration and export performance in many least developed countries.<sup>14</sup> The DTIS will examine customs and border processing/clearance procedures in Uganda to assess their level of effectiveness and compatibility with international standards and to identify areas of potential improvement. The DTIS will pay special attention to identifying any trade facilitation related areas that may not be adequately addressed in the current Uganda Revenue Authority Support Project,<sup>15</sup> and the Customs-related implications of Uganda's participation in the East African Community. In particular, the DTIS will examine the following areas:

- Import/export/transit procedures for compatibility with international standards (including GATT Articles V, VIII and X and the World Customs Organization's Revised Kyoto Convention)
- Customs valuation for compatibility with WTO Valuation Agreement
- Current and future Information Technology support requirements
- Degree of cooperation between Customs and other border related regulatory agencies
- Future requirements stemming from Uganda's participation in the East African Community
- Explore opportunities available for electronic transmission of import/export/transit data between EAC members
- Investigate the potential and constraints facing Uganda in providing transit services to neighboring land-locked countries – Rwanda, DRC, and Sudan

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<sup>14</sup> Tsikata (2003).

<sup>15</sup> Funded by U.K. Department for International Development.

68. In addition, due to the fact that Uganda is a landlocked country and is therefore dependent on effective and efficient transit operations in Kenya and Tanzania, special attention should be paid to identifying any Customs/border processing problems or issues that may impact adversely on Uganda. Where possible, attention should be paid to identifying solutions that could be implemented by Uganda either acting independently or in coordination with neighboring countries.

69. In assessing the needs for improvement related to each of the areas, the DTIS will take into account the policy, legislative, regulatory and institutional (including structure and capacity) aspects, and provide recommendations accordingly. The DTIS will bring in relevant international standards and best practice examples to support the analysis and recommendations.

### **Sub-sector studies**

70. In addition to the cross-cutting factors discussed above, there could also be sector-specific constraints to exports. Certain sub-sectors have been selected for in-depth studies with the objective of identifying such constraints. The sub-sectors have been selected on the basis of their current or potential importance in contributing to Uganda's overall export growth, as well as their impact on poverty alleviation through employment generation either directly or indirectly by way of forward and backward linkages.

71. Many of the sub-sectors that have been selected are in the agriculture sector for the following reasons. *First*, agriculture is important for the Ugandan economy, as reflected in its sizeable share in Uganda's GDP (nearly 40 percent in 2003/04), and the large share—87 percent in 2002/03—of the population that resides in the rural areas. *Second*, the agriculture sector is important for poverty reduction: in 2002/03, 42 percent of those residing in the rural areas live below the poverty line. *Third*, it is the sector in which Uganda has a comparative advantage, as reflected in the fact that the majority of Uganda's exports are agricultural. These include, in addition to the traditional exports of coffee, cotton, tea, and tobacco, also the non-traditional ones of fish, cut flowers, cereals, hides and skins, and beans. While the share of these exports in total exports has been on a declining trend, in 2003/04 they still made up nearly 60 percent of total merchandise exports. The DTIS has selected for more in-depth analysis the sub-set of these exports that are considered to have the largest potential for growth and/or poverty reduction. These include, among agricultural crops, coffee, cotton, tea, and maize (the latter due to its potential in exporting to neighboring countries in the region), and among non-traditional exports, fish and floriculture/horticulture.

72. Outside of agro-processing, Uganda's manufacturing potential is limited, and will face greater import competition from trade liberalization under the EAC, especially from Kenya. The other area of export potential that Uganda has yet to exploit is services. The DTIS has selected three services sub-sectors for more in-depth analysis: tourism, information communications technology (ICT), and transit trade services. As mentioned earlier, tourism is already the top foreign-exchange earner among merchandise and services exports in Uganda, although a great deal of tourism potential remains to be

exploited. Uganda does not currently export ICT services or transit trade services, but there may be potential to develop these.

73. For all these sub-sectors (excepting ICT and transit trade services, the latter being covered in the TTF section), the DTIS will:

- review trends and current status in terms of production, exports, and employment levels;
- identify the structure of the industry (key companies at the producer, intermediary, processor and/or exporter levels);
- identify major constraints to expansion in terms of production and exports;
- assess the prospects of expansion in light of external market conditions and demand (international and regional), and Uganda's competitive position both regionally and globally;
- analyze the potential for and constraints to value-addition where applicable and feasible;
- assess new initiatives proposed by/to the Government for expansion in these sub-sectors (for instance, for cut-flowers, there is a proposal for making land available and providing infrastructure in western Uganda where the climate is suited for producing better quality flowers; for fish there is an initiative to expand the supply of fishery resources to cage culture, fish farming, and crater lake fish);
- provide quantitative estimates, where possible, of future production and export levels;
- review poverty alleviation dimension of increasing production and exports either through direct employment generation or indirectly through backward and forward linkages;
- assess the adequacy of existing skills in the sub-sector;
- draw on international experiences in the development of the sub-sectors;
- review existing diagnostics studies, evaluate the current status of the sub-sector against recommendations from the previous studies, and focus new analysis on any gaps that may exist; and
- propose a prioritized action plan to address constraints to production, exports, and value-addition (where applicable) that include policy, legislative or institutional changes, capacity building measures, and investments. The DTIS will note which of these recommendations have already been proposed (with implementation pending).

74. With respect to the ICT sector, the DTIS will draw on analysis that is being undertaken in the context of the CEM. Specifically, the Bank is undertaking a study on the role of ICT in improving competitiveness and increasing economic growth in Uganda which will, among other things:

- review the position of Uganda's economy within the international business environment and the opportunities and challenges for increasing exports in ICT-enabled services (such as business process outsourcing);
- assess needs with respect to regulatory and institutional environment, ICT infrastructure, ICT skills gap, and other constraints;
- recommend appropriate actions to address constraints.

## **Trade and Poverty**

75. Changes in trade policy—domestic and international—and removal of other constraints to trade can affect poverty in different ways. For instance, changes in the tariff structure can raise or lower the poverty levels of households depending on what the latter produce and consume. Reduction in tariffs can reduce government revenues and can adversely affect the poor if there are corresponding reductions in social spending by the government. Changes in international trade policy can also affect poverty in different ways. For instance, poverty can increase because of the erosion in preference margins that may result from a possible future WTO agreement on market access. Or, poverty can be reduced if tariff peaks and tariff escalation are reduced in the export markets for products that are particularly important for poor households. Reduction of trade-related constraints such as through measures to improve customs and other aspects of trade and transport facilitation can boost exports, raising incomes and reducing poverty as a result. The DTIS will trace, and provide quantitative estimates where possible, these various ways in which changes in trade policy and other constraints to trade can affect income and poverty levels. Specifically, the DTIS will cover the following.

76. First, the DTIS will trace out the short-term impact of the adoption of the CET, and possible changes to the CET that the DTIS might recommend, at the macro/sectoral level. It will estimate the revenue impact, and assess which sectors are likely to gain, which will lose, as well as changes in employment, wages, and productivity. This part of the study will draw on, and extend the analysis in, Rajhi et al (2005). It is understood that these are short-term effects as, over the longer term, the changes in relative prices could lead to shifts in resource allocation and hence changes in production, which would affect household incomes. Nonetheless, it is important to ascertain the short-term effects, in case there is a need for measures to alleviate potential adjustment costs. International experience shows that trade policy changes can have significant negative effects on poverty, among the reasons for which is limited mobility of labor that, in the absence of re-training, may find it difficult to move to expanding sectors.<sup>16</sup>

77. Second, the DTIS will analyze the impact on household incomes and poverty resulting from the introduction of the CET and possible changes to the CET, by mapping the tariff structures with household production and consumption data.

78. Third, data permitting, the DTIS will estimate the effects of different scenarios of market access changes on household incomes and hence poverty levels, including those relating to the possible future WTO agreement on market access.

79. Fourth, the DTIS will analyze the impact of reducing trade costs on poverty reduction focusing on tea, cotton, and coffee. This part of the study will draw on ongoing research by the World Bank on the topic.<sup>17</sup>

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<sup>16</sup> World Bank (2005b).

<sup>17</sup> Balat and Porto (2005).

80. Fifth, the DTIS will trace the employment and hence income and poverty reduction effects arising from increased production and exports of those agricultural crops and other sub-sectors that have been selected for detailed studies. Specifically, and to the extent that data is available, the DTIS will map the geographic locations of production of these exports with regional income distribution data, and perform simulations to derive the magnitude of income changes and hence the magnitude of poverty alleviation that would result from raising the production and exports of these agricultural and non-agricultural goods.

81. The DTIS will aim to integrate the discussion of all these various aspects of trade and trade policy changes on poverty in the respective sections/chapters of the report.

### **Process and Time-line**

82. The processing schedule of the DTIS is as follows:

Preliminary Mission:	May 16-20, 2005
Concept Paper Distribution:	June 30, 2005
Main Missions:	July 11-22, 2005; September 2005
First Drafts of Chapters:	September-November, 2005
Draft of Summary Report:	January 2006
Delivery to Government:	February 2006

**DTIS Team**

Team Leader	Helena Tang
Macroeconomic Environment and Performance	IMF Team
Trade Performance	Rachel Ssebbude (AFTP2)
Trade Policy and Regional Trade Agreements	Jacques Degbelo (WTO) and Peter Walkenhorst (PRMTR)
Market Access and Preferential Trade Agreements	Peter Walkenhorst (PRMTR)
Impact of Preference Erosion	Kym Anderson (DECRCG) and Dominique Van Der Mensbrugge (DECPG)
Trade and Poverty	Burcu Duygan (consultant)
Trade and Transport Facilitation	Vijay Raman (consultant)
Customs	William Crandall (consultant)
Trade Institutions	Andrew Singer (consultant)
Product Standards	Steve Jaffee (PRMTR)? Spencer Hanson (consultant)? local consultant (tbd)
Sub-sector studies	
Coffee, Maize	Don Mitchell (DECPG)
Cotton, Tea	John Baffes (DECPG)
Fish	Ian Goulding (consultant)
Floriculture & Horticulture	Andrew Sergeant (consultant)
Tourism	Shaun Mann (consultant), local consultant (tbd)
Peer Reviewers	Peter Miovic (consultant) Marios Obwona (Economic Policy Research Center)

## **Draft Outline of DTIS Summary Report**

### **Volume I**

Executive Summary

Action Plan

- Chapter 1      Context and Background
  - A. Economic Background
  - B. Trade Performance – Structure and Destination
  - C. Poverty Trends and Profile
  
- Chapter 2      Macroeconomic Policies and the Real Exchange Rate
  
- Chapter 3      Trade Policy and Regional Trade Agreements
  
- Chapter 4      Market Access and Preferential Trade Agreements
  
- Chapter 5      Institutions for Trade Policy and Export Development
  
- Chapter 6      Product Standards
  
- Chapter 7      Transport and Trade Facilitation
  
- Chapter 8      Selected Sector Issues

### **Volume II**

- Chapter 1      Agricultural Crops (coffee, cotton, maize, tea)
  
- Chapter 2      Fish
  
- Chapter 3      Floriculture and Horticulture
  
- Chapter 4      Tourism
  
- Chapter 5      ICT

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