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EXTRACT OF THE S U M M A R Y OF THE FINDINGS

1. BACKGROUND

i. Uganda is a relatively young country. The announcement of its creation and status as a British protectorate was published in the London Gazette in 1894. Uganda's formation was not the result of a gradual process of national integration. On the contrary, both its existence and its borders were determined entirely by the imperial powers France, Germany and Great Britain, who had both territorial and strategic control of the country, particularly the River Nile. It was built largely around Buganda, and other territories were added during the process of accretion and military conquest. While independence was achieved largely through peaceful negotiations devoid of insurgency and violence, Ugandan politics were fragmented along tribal and religious lines. The most pronounced of these divisions was between the Kingdom of Buganda, which had its separate parliament (the Lukiko), its own court and power of taxation, and the new national government at independence. So separate were their interests that there were effectively two states within one country.

ii. Uganda, the country that so captivated Winston Churchill as the "Pearl of Africa", suffered major trauma during its first two decades of independence. Prior to 1986, the country embarked on a rollercoaster ride of unreliable and unstable coalitions, the persistence of bad governance and virtual socioeconomic stagnation. In 1962, within four years of independence, Uganda experienced a series of political catastrophes that rendered it one of the poorest nations in the world and a byword for bad governance. To compound the problem, after the dictatorship of Idi Amin (1971–9), Uganda went through another period of tragic rule, political instability and economic decay, which lasted until 1986.

iii. Indeed, it is accurate to characterise Ugandan political history as one whose flow and texture have been determined by conflict. This resulted in the destruction of economic, physical and institutional infrastructure and, to a large extent, explains the Uganda of today. The pearl ceased to shine and the country entered the dark age of political, economic and moral decline.

iv. Since the late 1980s, Uganda has managed to reinvent itself, moving on from the abyss of civil war and the economic catastrophe of the Idi Amin years and the return to power of Milton Obote. Though the country has been plagued by intermittent clashes between rival armed groups, it has made a gigantic leap in governance and socioeconomic development. Over the last two decades, the National Resistance Movement (NRM) government, under the leadership of the current President of Uganda, Yoweri Kaguta Museveni, has made considerable progress in restoring political stability and order to the country. Human rights have greatly improved and the country has launched a successful campaign to fight the HIV/AIDS pandemic. Its economy is one of the fastest growing on the continent. The almost unswerving commitment of the government to people-centred governance, sustained macroeconomic stability, economic growth and poverty reduction is inspirational.

v. However, these significant strides on the socioeconomic and political fronts are little cause for complacency. Once hailed as a compelling "success story" of Africa, it must be acknowledged that contemporary Uganda faces a number of challenges and runs the risk of not advancing rapidly. There are real political and structural risks that threaten to undermine this record. The irony of Uganda's recovery is that the macroeconomic stability that has been achieved is based almost entirely on concessional and conditional transfers of development aid. It is not based on any fundamental improvement in the basic structure of the economy. This means that, since the colonial days, little has changed in the relative importance of the agricultural, industrial and other sectors of Uganda's economy.

vi. Despite its record performance, Uganda, with a population of about 30 million, is still one of the world's poorest countries. The majority of its population is engaged in subsistence agriculture and the informal sector. Reducing poverty substantially still remains a major challenge. After falling from approximately 56 per cent of the population to 34 per cent between 1992 and 2000, the proportion of the population living in poverty rose to 38 per cent by 2003, before declining to 31 per cent in 2005. It has also been shown that, despite the apparent reduction in poverty, a significant proportion (20 per cent) of Ugandans are still living in chronic poverty and, in many respects, poverty is deepening as inequality widens.

vii. The impressive economic development and poverty reduction to date have to a large extent been based on separate events. For instance, favourable circumstances and reforms have yielded large one-off bonuses in terms of growth and poverty reduction. The single most significant events have been the peace dividend after 1986, economic liberalisation and macroeconomic stabilisation in the early 1990s, and the significant increase in foreign aid. While they remain essential preconditions, these events cannot be expected to drive future growth. Uganda thus needs to industrialise in order to transform itself into a prosperous middle-income economy by 2030, as envisaged in the country's Vision 2030 report. As it takes advantage of enlarged markets through regional integration, it is crucial that the country improves the performance of the real economy and turns the private sector, as an economic actor, into an engine of growth.

viii. Equally disturbing, because they pose the greatest threat to Uganda's continued economic growth, are the risks presented by recent political developments in the country. After an extended period of political liberalisation, which resulted in the strengthening of Parliament, the judiciary, watchdog agencies such as the Inspector-General of Government (IGG) and a free media, Uganda is in danger of slipping back into a period of neo-patrimonial rule. The apparent militarisation of society has not helped the democratic cause, while democratic gains from the decentralisation process are in serious danger of being eroded. Add to this the recent mushrooming of districts in the country. Ultimately, the reform of the Ugandan state lies in the fully fledged democratization of political society. Civil society and political parties must play the leading role in this process. Uganda is – and must be – greater than any single individual; that is the premise of modern statehood. Having rescued Uganda from the Amin and Obote strangleholds, the current leadership should be concerned about its own legacy.

ix. The challenge for Uganda now is to deepen reforms already under way and prevent their reversal. There is no doubt that, with determination, a concerted reform effort and political will, Uganda can leapfrog into the future as a prosperous middle-income country by 2030. Furthermore, it should be able to sustain growth at levels that can lift most of its people out of poverty. Uganda has to build on the successes highlighted in this report, while addressing the challenges, in order to claim its rightful place as the "Pearl of Africa".

2. SUMMARY OF FINDINGS IN THE THEMATIC AREAS

2.1 Democracy and Political Governance

x. Uganda has had a tumultuous political history. Since attaining independence in 1962, the country has gone full circle, from a parliamentary democracy to years of dictatorship and military rule, back to a parliamentary democracy. The short burst of enthusiasm soon after the decade of independence was replaced by a long, almost unremitting period of despair. Although there was relative stability in the 1960s, the abrogation of the Constitution in 1966 marked a watershed in the undemocratic governance and political instability of the country. From then on military coups, civil wars, repressive regimes, refugee flows and economic stagnation soon came to define the state. The impact of pervasive political instability has left scars that are still visible in the country's social fabric and political psyche.

xi. There has been undeniable progress since the NRM came to power in January 1986 under the leadership of Yoweri Museveni. This regime change, which was hailed across the globe, has brought peace and security across most of Uganda, except in some areas in the north, by reconstituting a failing and fragile state. It rejuvenated an economy that had atrophied and, to a large extent, safeguarded the true principles of human liberties by promoting press freedom and putting an end to the human rights abuses of earlier governments.

xii. However, despite these monumental achievements, the task of establishing democratic institutions through which Ugandans of all regions, ethnic backgrounds and political orientations have a meaningful stake in the political system and resolve their differences under democratic rules, is yet to be fully achieved in the country. Uganda still faces enormous challenges in managing diversity within the country, precisely as a result of two decades of war that polarised the country along tribal or ethnic rifts and regionalism.

xiii. Uganda has been progressive in committing itself to promote and respect African and internationally recognised human rights instruments. To date it has ratified several major international and regional instruments in this thematic area. The country has, however, not signed or ratified some important instruments, such as the Second Optional Protocol to the International Covenant on Civil and Political Rights, aimed at the abolition of the death penalty; the Optional Protocol to the Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; the African Union Convention for the Elimination of Mercenaries in Africa; and the Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa, also known as the Maputo Protocol. The biggest challenge has been domesticating the signed treaties and meeting the reporting obligations of the different treaties. Many of the reports are still overdue. There does not appear to be a clear and coherent framework for acceding to standards and codes, and for following up on their implementation.

xiv. Uganda has experienced political instability, with military coups in 1971, 1979 and 1985, war with neighbouring Tanzania (1978–9) and civil war (1981–6). The long history of conflicts, spanning the pre-colonial period, the colonial era and most of the post-independence epoch to date, has resulted in socioeconomic destruction, loss of lives and retardation of sustainable human development. The war in the north, which has been raging for 21 years, has led to structural imbalances, including inequality and poverty. These imbalances are concentrated more in the conflict-prone regions that remain the most underdeveloped parts of the country, especially Northern Uganda and the Karamoja region.

xv. The government has made commendable progress in putting in place a plethora of institutions and policies for building firm foundations on which democratic governance can be anchored. These include adopting the 1995 Constitution that provides a Bill of Rights; establishing institutions that protect democracy and promote human rights; liberalising the media; managing intra-state and inter-state conflicts; decentralizing power for effective service delivery; fighting corruption; and reintroducing a multiparty political system in 2005, thereby setting the stage for the first multiparty elections of 2006.

xvi. Notwithstanding the progress that the NRM has made in establishing peace and stability, the country still faces the challenges of institutionalising and consolidating democratic governance. While principles of constitutionalism are clearly spelt out in the 1995 Constitution, which provides a firm constitutional foundation on principles of the separation of powers, the challenge is how to sustain the progress and prevent a reversal process that could undermine the supremacy of the Constitution and the rule of law.

xvii. A number of institutions have been established in Uganda to promote democracy and ensure that the foundations of democratic governance are firmly rooted. These institutions include the UHRC, IGG, Auditor-General and Electoral Commission. It is evident that many of these institutions are battling to adjust to the new multiparty system introduced since the 2005 referendum and implemented since the 2006 elections. The main challenge facing these institutions is having inadequate resources to enable them to function effectively.

xviii. The political culture of the no-party movement lingers on, even under a multiparty dispensation, and this trend tends to weaken a multiparty Parliament. While the transition from a no-party to multiparty system poses a gigantic challenge to almost all democratic institutions, including the citizens themselves, the one institution that is directly affected by this political change is the legislature. Evidently, the composition of Parliament demonstrates its broadly representative nature, although controversy still surrounds the direct representation of the army in the House. Besides the broad representation of various social groups in Parliament, there is strong collaboration between Parliament and CSOs, a positive development that has the potential to strengthen its independence and oversight role.

xix. The Constitution is very explicit on the independence of the judiciary. In reality, administrative independence exists and relative judicial autonomy is the norm. During the interactive session with members of the judiciary, the CRM was informed that the Supreme Court and the Constitutional Court do not have premises of their own due to resource constraints. The Supreme Court rents premises from the Buganda Kingdom and pays a monthly rental. In like manner, the Constitutional Court rents premises from a commercial entity. Both courts face capacity problems, including a shortage of adequately qualified or capable judges.

xx. Uganda has also established an elaborate decentralisation programme that provides space for citizens to participate effectively in decision-making processes. The main challenge has been to sustain local governments that depend heavily on the central government budget, thereby preventing the degeneration into recentralisation.

xxi. Additionally, the government has taken measures to ensure the establishment of an accountable, efficient and effective public service by putting in place a framework for a wide range of legislative and strategic administrative reforms. Nevertheless, the challenge remains to create a “professional and efficient public service” at both the central and local government levels, given the limited resources. While combating corruption is a priority, it remains a pervasive problem in the public service.

xxii. Affirmative action measures have been introduced to rectify the historical imbalances that have excluded various social groups from mainstream political and economic processes. These include redressing the marginalisation of vulnerable groups, including ethnic minorities, people with disabilities, internally displaced persons, the elderly, and vulnerable children. Key challenges facing the country in this regard include mobilizing sufficient resources needed to implement policies, and addressing social exclusion and marginalisation. Additionally, there is the need for political will of the leadership and the people to transform attitudes, norms and practices that reinforce institutionalized discrimination and marginalisation.

xxiii. Uganda has done relatively well in getting women involved in the political process. For instance, in 1993 women constituted 18 per cent of Parliament, a figure that has since risen to 25 per cent. Women also occupy key positions, such as ministers (5 out of 24) and deputy ministers (11 out of 44), the Head of the UHRC, the Internal Revenue Service, the IGG, the Deputy Speaker of Parliament and the deputy heads of the judiciary, the civil service and Electoral Commission. Many obstacles, however, remain. Women constitute less than 30 per cent of ministers, permanent secretaries, undersecretaries, department heads, and managers of development programmes. Under section 32(2) of the 1995 Constitution, Parliament commits to making laws for the establishment of an Equal Opportunities Commission as a key vehicle for implementing affirmative action to empower women. However, 18 years later, that Commission is yet to be established. The Domestic Relations Bill, which tried to address some of these challenges, has stalled in Parliament.

xxiv. The government has set up an elaborate legal and institutional framework and structures for promoting social, economic, political, civil and cultural rights. Furthermore, mechanisms have been put in place to ensure access to justice, including formal, quasi- and local council courts. The main challenge is to institutionalise a human rights culture in both state and non-state sectors. Women's rights continue to be violated in both public and private spheres. Children too continue to suffer from various forms of violation of their rights.

xxv. On the whole, the governance realm in Uganda is progressively moving away from the tradition of authoritarianism and militarism that marked its landscape between the mid1960s and mid-1980s. Consequently, the eagerness to democratise has been so overwhelming that a number of policies, procedures, guidelines and institutions have been put in place with respect to development and governance processes. One of the major challenges is how to harmonise the progressive policies and ensure smooth coordination between the various institutions. This is the heart of the problem. Uganda has so many progressive policies and so many institutional frameworks, yet resources and effective machinery to implement these are severely lacking.

xxvi. The APR Panel recommends, among other things, that Uganda should promote a culture of respect for the Constitution, constitutionalism and the rule of law, thereby ensuring effective balance of power between the executive, judiciary and legislature. The authorities should also reduce the overwhelming donor dependence of the judiciary, as this has implications for judicial independence.

2.2 Economic Governance and Management

xxvii. Along with its political transition, Uganda has also come full circle in the economic sphere. At independence, the country was more fortunate than most of its neighbours in that it had promising economic potential and appeared poised for rapid economic growth and development. However, the high economic expectations of the post-independence period were soon destroyed by the governments of the first rulers. Chronic political instability and erratic economic management produced a record of persistent economic decline that left Uganda among the world's poorest and least-developed countries.

xxviii. The NRM government that came into power in 1986 inherited a run-down economy – inflation was at 240 per cent and poverty levels at 56 per cent; commodity sector price controls and foreign exchange controls were in place; road infrastructure was poor; and only 10 per cent of the population had access to clean water.

xxix. Since assuming power, the government has taken important steps towards economic rehabilitation. The country's infrastructure – notably its transportation and communications systems that were destroyed by war and neglect – is being rebuilt. Recognising the need for increased external support, Uganda negotiated a policy framework paper with the International Monetary Fund (IMF) and the World Bank in 1987. It subsequently began implementing economic policies designed to restore price stability and sustainable balance of payments; improve capacity utilisation; rehabilitate infrastructure; restore producer incentives through proper price policies; and improve resource mobilisation and allocation in the public sector.

xxx. The economic policies of the government have largely succeeded in reversing the macroeconomic disequilibrium that the economy suffered between the early 1970s and the early 1980s. Uganda's macroeconomic performance over the past 20 years has been exceptional. The country recorded a 6.3 per cent growth rate in its gross domestic product (GDP) between 1990 and 2007, which has contributed to the reduction of income poverty from 56 per cent in 1992 to 31 per cent in 2005. Sound macroeconomic policies have also contained debt and brought about price stability, which are key factors in Uganda's growth and poverty reduction record. Inflation, which ran at 240 per cent in 1987 and 42 per cent in June 1992, was only 5.1 per cent in 2003, but went up to 7.7 per cent in 2007 as food prices rose, which is well above the government's annual target average of 5 per cent. Donors have consistently funded a significant part of public spending.

xxxi. More recently, however, per capita growth has tapered off and poverty reduction has stagnated. Apart from slower economic growth, poverty trends were adversely affected by declining terms of trade (in the late 1990s) and widening income inequalities. The fall in per capita growth is explained by a dwindling contribution from the positive post conflict catching-up effects, the relatively low growth in productivity and very high population growth. Uganda's annual population growth – now over 3 per cent – is one of the highest in the world. Uganda also has some country-specific features that have affected, and can be expected to affect, the economic development. It is landlocked, which means that geography imposes a "tariff" on both exports and imports through high transport costs. This has implications for Uganda's international competitiveness.

xxxii. There is a general observance of most standards and codes because most of the specified practices have been mainstreamed through the Financial Institutions Act, the Budget Act, and the Public Finance and Accountability Act. In addition, most of the commitments in the NEPAD Framework Document of 2001 have been successfully mainstreamed through the Poverty Eradication Action Plan (PEAP).

xxxiii. Although the country is in full compliance with the Basel Committee's principles, current bank ratings by the Bank of Uganda (BoU) show that seven of the 14 banks are classified as "satisfactory", while the other seven are classified as "fair". In addition, the Bank indicated that a Credit Reference Bureau was expected to be established by mid-2008. Furthermore, the majority of microfinance institutions still fall in the realm of the informal sector and only four main ones are currently being regulated.

xxxiv. There was no official confirmation of the status on the Guidelines of Public Debt Management. However, the country has developed a Debt Strategy dated December 2007. The Anticorruption and Money Laundering Bill has not been enacted by Parliament and no evidence was available on the effectiveness of any measures taken to deal with the issue of money laundering.

xxxv. Because of its concern for poverty eradication, the government adopted the PEAP as its planning framework and foremost instrument for accelerating growth, reducing poverty and promoting sustainable development. The first PEAP was introduced in 1997, and the current PEAP, spanning the period 2004/5 to 2007/8, is the third. Following the multiparty elections of February 2006, the NRM government came up with a pledge to implement a programme called "Prosperity For All" (Bona Bagaggawale). This programme was formulated to reprioritise the PEAP, with a view to transforming Uganda into a middle-economy country in line with the targets of the PEAP.

xxxvi. In support of the PEAP, the IMF, in collaboration with other multilateral organisations, designed a three-year Poverty Reduction and Growth Facility (PRGF) programme. This ended in December 2005, after having been successfully completed. Since January 2006, the IMF and the government have embarked on a new multi-year Policy Support Instrument (PSI), which continues with the implementation of policies to achieve further improvements in economic growth and poverty reduction.

xxxvii. Against the background of macroeconomic stability and a fairly conducive investment environment, the country has experienced significant increases in investment flows, both foreign and domestic. As a percentage of GDP, private investment has risen from 12.2 per cent in 2000/1 to 19.2 per cent in 2006/7. Public investment averaged 5.1 per cent over the same period.

xxxviii. Two defining features of Uganda's fiscal management have been budget deficits and donor dependency. Increased government expenditure, which is not matched by increased domestic revenue, has resulted in huge fiscal deficits (excluding grants) peaking at 12.4 per cent of the GDP in 2001/2, but dropping to 7.3 per cent in 2006/7. The deficits have mainly been financed by net external fund inflows in the form of grants and highly concessional loans. Although the increase in the donor-funded fiscal deficit has enabled the government to increase its expenditure more rapidly than the growth in domestic revenue alone would allow, it has led to significant challenges in monetary policy management. The sterilisation efforts by the BoU due to recurring budget deficits have tended to drive up interest rates and increase the cost of private sector borrowing.

xxxix. Although the government has begun to implement a strategy to scale back the fiscal deficits, the challenge remains to reduce donor dependency, which has increased the vulnerability of the national budget to a sudden cutback in donor aid. This will entail broadening the tax base, capturing the informal sector into the tax net and effectively implementing the new National Industrial Policy to achieve industrial development.

xl. There are constraints on the private sector-led economic growth strategy, such as limited and unaffordable credit. The key negative factors to doing business in Uganda are, in order of importance and as reported by the Global Competitiveness Report (2005/6) of the World Economic Forum, access to finance, corruption, underdeveloped infrastructure, high tax rates and a poor work ethic. Also, the World Bank's 2006 Diagnostic Trade Integrity Study and Country Economic Memorandum identified the shortage of electricity to be the most severe impediment to industrial development, followed by infrastructure and finance. The effects of the electricity crisis alone saw significant declines in the growth of the industrial sector, from 10.8 per cent in 2004/5 to a disappointing 4.5 per cent in 2005/6, while the manufacturing sector was hardest hit, with growth reducing from 13.5 to –3.5 per cent during the same period.

xli. In the last five years, participation in the budget preparation process by key stakeholders, such as government ministries, local government, Parliament, donors, private sector and civil society actors, has increased. This has helped the government to highlight issues of concern to the citizenry and has also enhanced the transparency of the exercise. However, the challenge remains to improve budget implementation tracking and predictability through the regular flow of funds, including donor grants.

xlii. Significant progress seems to have been made in strengthening and updating the legal framework and regulatory environment for public finance management. Authorities and programmes tasked with ensuring good public financial management are also in place. However, performance levels appear to be affected by capacity issues, especially at local level.

xliii. Corrupt and fraudulent practices are prevalent in a wide range of sectors and areas in Uganda, and the cost of corruption to the economy remains a cause for serious concern for all stakeholders. The government has made notable progress in putting in place institutional and legal frameworks to fight corruption and money laundering and raising public awareness. However, there are significant capacity constraints on the ability of anticorruption agencies to carry out their functions, both in public education and in investigating, detecting and prosecuting offenders. The most difficult challenge that the government faces is lack of public interest and support in this regard.

xliv. Uganda has been at the forefront of promoting regional integration, specifically through building a strong East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and Intergovernmental Authority on Development (IGAD). The establishment of the East African Customs Union is seen as a major milestone towards full integration of East African economies. The success of integration lies in the sizable market of 90 million people, with a total GDP of US$30 billion.

xlv. No doubt, significant achievements have been made by Uganda over the past two decades in the sphere of macroeconomic stabilisation and growth, but notable challenges remain. The APR Panel recommends that Uganda should continue its efforts in the following areas: increasing domestic revenue mobilisation while reducing fiscal deficits; improving infrastructure (road, rail and electricity) to create a conducive environment for investments; increasing capacities for public finance management, especially in local governments; strengthening oversight functions of Parliament on the utilisation of public finances; combating corruption through strengthening the existing legal and institutional framework; and accelerating regional integration.

2.3 Corporate Governance

xlvi. Awareness of corporate governance is still in its infancy in Uganda, and this is understandable given that it remains a fairly new concept, with most of the international standards and codes relating to this theme only being adopted in the late 1990s and early 2000s

xlvii. Regarding standards and codes, Uganda has ratified the 1987 African Charter on Human and Peoples' Rights, the principles of which are enshrined in the national Constitution. Most of the codes of the International Labour Organisation were adopted already as early as 1963. In addition to international treaties and conventions relating to human rights, financial sector supervision, labour and the environment, the Organisation for Economic Cooperation and Development (OECD) and Commonwealth corporate governance principles, as well as the King Report II, have largely informed Uganda's legal and regulatory framework. The country has also adopted the International Accounting Standards (IAS) and subsequent International Financial Reporting Standards (IFRS), as well as the International Standards on Auditing (ISA). In the financial sector, the main applicable sets of standards are the Basel Committee's 25 Core Principles for Effective Banking Supervision, the Core Principles for Securities Regulation, and the Core Principles for Security and Insurance Supervision and Regulations. Lastly, the Codes on Industrial and Environmental Safety and Hygiene of the World Health Organisation (WHO) were adopted in 1994.

xlviii. The adoption of such standards and codes has had a positive impact on Ugandan enterprises, and the country's sustained growth over the past years is also attributable to an emergent private sector. According to the 2006/7 Business Register issued by the Uganda Bureau of Statistics (UBOS), the total number of registered businesses employing more than five persons was 25 467, located mainly in the Kampala area.

xlix. Private sector organisations in Uganda have been very active in promoting enhanced business practices among their members. Institutions such as the Private Sector Foundation Uganda (PSFU), the Uganda National Chamber of Commerce and Industry (UNCCI) and the Uganda Manufacturers Association (UMA) have been assisting their members in the governance area. Dialogue between the public and private sectors has been improved with the establishment of the Presidential Investors Round Table (PIRT), which is actively promoting reforms aimed at enhancing the investment climate in the country.

l. The government has established a wide range of supervisory and regulatory bodies to oversee the application of adopted laws and regulations. However, apart from the BoU and the Capital Markets Authority (CMA), the critical shortage of human, technical and financial resources in these institutions and weak enforcement capacity have hindered the effectiveness of these bodies.

li. The development of Ugandan capital markets is encouraging and the recent launch of the Uganda Securities Exchange has created an avenue for greater popular participation in the privatisation process. The CMA in Uganda is actively cooperating with its Kenyan and Tanzanian counterparts to bring about the

EAC Regional Capital Market, and will soon be adhering to the principles of the International Organisation of Securities Commissions (IOSCO). Notable progress has also been made in regulating the banking sector, which was recently strengthened with the enactment of the Financial Institutions Act and the Microfinance Deposit-Taking Institutions Act. The majority of microfinance institutions, however, are still not regulated. The regulation of the insurance sector needs to be enhanced by incorporating IFRS provisions, while the accounting profession is still awaiting the enactment of the Accountants Act to strengthen the enforcement of accounting and auditing standards by the Institute of Certified Public Accountants of Uganda (ICPAU). Moreover, current commercial laws do not fully incorporate the requirements contained in most standards and codes. This has been identified as a major weakness, given that continued non-compliance with international standards could have negative implications on investment and international trade. Similarly, political interference in the administration of justice, compounded by pervasive corruption, has gradually undermined the Ugandan investment climate.

lii. To create an enabling business environment and promote private sector-led investment, the Uganda Law Reform Commission (ULRC) is revising more than 64 commercial laws. However, the process has been lagging behind for the past four years, either at Cabinet level or in Parliament. Following consultations with the private sector, the PIRT has prioritised 27 laws to be passed by Parliament. Progress is being monitored by the Competitiveness and Investment Climate Strategy (CICS) Secretariat.

liii. Other impediments to business activities in the country include difficulties in accessing finance, the high cost of credit, inadequate infrastructure (energy, transport, water, sanitation and telecommunication), high tax rates applied to a very narrow base and an inefficient government bureaucracy.

liv. Despite recent positive developments in the corporate governance arena, Uganda still faces a number of challenges. The Ugandan economy is driven, to a large extent, by private sector micro-, small and medium-sized enterprises (MSMEs), most of which are family owned and do not apply principles of corporate governance. The vibrant informal sector is not captured in national statistics or accounted for in government policy making. The government-funded Prosperity For All (PFA) programme has mainly been used for domestic consumption rather than for developing productive activities at local level, especially in the agricultural sector. Overall, the government needs to promote domestic investment and provide for adequate incentives to develop domestic savings.

lv. The enforcement of legal prescriptions in the labour and environmental sectors has not proved effective enough. Law infringement by Ugandan companies is seldom penalized and foreign investment has often been promoted at the expense of workers' rights and environmental protection.

lvi. Uganda is characterised by a very high population growth rate, yet the issue of employment of young people is still not adequately addressed. The current educational framework does not meet employers' expectations, as Ugandan enterprises are in crucial need of technically skilled and industrially trained workers, rather than university graduates.

lvii. Although the legal framework adequately provides for the protection of various companies' stakeholders, financial literacy must be improved within the general public. There is a clear lack of public awareness on companies' obligations as regards corporate governance principles, and very few Ugandans know their rights.

lviii. The APR Panel recommends that the government should take the necessary actions to fast-track the enactment of the revised commercial laws, thereby fully incorporating the international standards and codes adopted by the country into its legal and regulatory framework. The government will also need to capacitate the regulatory, supervisory and enforcement bodies it has established if they are to fulfil their respective mandates, especially in the areas of labour, the environment and consumer protection. The PFA programme should be formally evaluated and reformed to be demand driven in order to better support local development throughout the country.

2.4 Socio-Economic Development

lix. When the NRM government came to power in 1986, it was confronted with the gigantic task of reviving a shattered economy in order to raise the living standards of the Ugandan population. The neglect of the social sector, especially health and education, during the years of political and economic upheaval had contributed to a severe decline in the standard of living for the majority of the population. Moreover, institutional capacity had been weakened by disruption and continual crisis management.

lx. Since 1986, Uganda has made considerable progress in promoting high growth and socioeconomic progress. The country has especially made notable progress in strengthening the capacities of the central economic management agencies that have primary responsibility for development planning (specifically the MFPED and BoU). These agencies have played an extremely important role in the reform process, resulting in a strong sense of domestic ownership in the development process.

lxi. The PEAP is the country's main policy document on poverty reduction and is the government's guiding framework for developing a number of programmes aimed at promoting socioeconomic development. These include Universal Primary Education (UPE) and Universal Secondary Education (USE), improved access to primary healthcare services, and the Plan for the Modernisation of Agriculture (PMA). Special priority is being given to the needs and rights of women and children, as well as vulnerable and disadvantaged groups and individuals. In Northern Uganda, the government has put in place a number of disaster response programmes, such as the Northern Uganda Reconstruction Programme (NURP I), NURP II, Northern Uganda Social Action Fund (NUSAF) and the Peace, Recovery and Development Programme (PRDP).

lxii. The government has set up a well-articulated institutional infrastructure for effective service delivery through a decentralised system. This delivery system includes clearly articulated structures at central and local levels. Departments covered at local government level include education, health, water and agriculture, as well as land boards.

lxiii. The government has also made an attempt to sign or ratify international standards and codes in order to benchmark progress in socioeconomic development against accepted international norms and practices. In some respects, Uganda has demonstrated this by establishing policies, institutions, programmes and other mechanisms to ensure that adopted or ratified standards and codes are implemented. However, there has been no systematic and comprehensive approach to the ratification and implementation of the outstanding standards and codes. Many standards and codes have not been systematically recorded for dissemination to state and non-state stake holders.

lxiv. There is also a general lack of awareness of signed, ratified or domesticated standards and codes among citizens. More could be done, therefore, particularly in terms of increasing awareness and effective participation of all stakeholders through, among other things, adequate and appropriate documentation.

lxv. Nonetheless, Uganda has made tremendous progress towards achieving some major socioeconomic targets set out in the PEAP and the Millennium Development Goals (MDGs). Over the past 20 years, the country has achieved sustained growth and a significant reduction in income poverty. The economy has grown at an average rate of 5.6 per cent per year over the past five years. The income poverty headcount declined from 56 per cent in 1992/3 to 31 per cent in 2005/6.

lxvi. There have also been considerable achievements in primary and secondary school enrolment following the introduction of UPE and USE. The country has also made significant progress in reducing the prevalence of HIV/AIDS from 18.5 per cent in the early 1990s to about 6.4 per cent in 2005. However, many problems still face these two sectors. In addition to the problems cited in the CSAR pertaining to the quality of education and health, the dropout rate in primary schools is very high, while in healthcare corruption is rampant, especially in medicinal drug distribution.

lxvii. Despite many improvements over the years, effective policy implementation remains a critical challenge in Uganda. Corruption, inadequate resources, lack of capacity – particularly at lower levels – and the politicisation of development programmes are major challenges. There is also a lack of effective public expenditure management, revenue enhancement and coordination of development assistance. In Northern Uganda, the well-intentioned disaster management programmes have been constrained by rampant corruption and insecurity.

lxviii. The decentralised system for service delivery also suffers from a number of structural, operational and financial weaknesses. This has tended to affect the quality of service delivery at local level. Weak policy and programme implementation in Uganda suggests the need for strengthening programme monitoring and evaluation capacity.

lxix. Dependence on external sources is a major constraint to genuine domestic ownership of the development process in Uganda. While this dependence has been declining over the years, it still remains relatively high. This has given rise to the perception that Uganda is mainly a "donor-driven" country. Despite insistence by state stakeholders about the local ownership of the development process in Uganda, there is no doubt that donors have been very influential in shaping various policies.

lxx. There is also concern that economic growth has not been associated with significant job creation and poverty reduction. The country therefore faces high and rising unemployment, particularly among the youth. The problem of household vulnerability to poverty also needs to be addressed. The upswing in poverty levels between 1999 and 2003 seems to indicate a significant level of household vulnerability.

lxxi. Another source of concern is rising inequality. Uganda has not been able to address fully the problem of rising income inequality within and across regions, and between urban and rural areas. Income inequality, as measured by the Gini coefficient, increased significantly from 0.35–0.37 in 1997, to 0.39–0.43 in 2000, with the inequities higher in the urban than rural areas. The inequalities are not only evident for income, but also for other basic social services, such as healthcare and education.

lxxii. Unlike most of Southern Uganda, there has been little economic growth or development in the northern part of the country. In fact, social conditions and personal security have worsened in a number of northern communities.

lxxiii. It is important to note that Uganda is using a relatively narrow definition of poverty based on per capita income or the consumer index. Income poverty assessments tell only part of the story. Access to basic services is critical in an economy that is still largely subsistence based, not cash based.

lxxiv. Uganda's efforts to reduce poverty sustainably are being hampered by demographic factors. The country's population growth and fertility rates are among the highest in the world, with over 50 per cent of the population below 15 years of age. This has created a very high dependency ratio. The bottom-heavy demographic structure is also exerting tremendous pressure on the government to provide adequate social services to the people. While Uganda has come up with a comprehensive policy and legal framework for environmental management, policy implementation remains weak.

lxxv. The land question in Uganda also remains unresolved. The Land Bill, which the government tabled in Parliament, has generated a great deal of controversy. This suggests the need for urgent, broad-based consultations on the land question in general and the Land Amendment Bill in particular.

lxxvi. The APR Panel recommends, among other things, that the authorities should explore the possibilities of widening the definition of poverty, stepping up efforts to curtail it and then widening regional inequality, as well as undertaking capacity-building programmes for local communities to prepare them for effective participation in the planning, implementation and monitoring and evaluation processes.

3. CROSS-CUTTING ISSUES

lxxvii. Some areas of deficiencies or shortcomings in Uganda are recurrent and interrelated. They necessitate a holistic approach because of their wider impact on the quality of governance in all areas. The following are ten major cross-cutting issues emerging from the report:

- The ratification and domestication of standards and codes;
- The high population growth rate;
- Policy implementation gaps;
- Managing political transition;
- The land question;
- Resolving the conflict in the north;
- Decentralisation;
- Managing diversity;
- Corruption; and
- Overdependence on aid.

4. BEST PRACTICES

lxxviii. The APR Panel has identified nine best practices worthy of emulation. They are highlighted below for peer learning.

Democracy and Political Governance

- Prompt handling of election petitions following the 2006 general election: Despite its resource constraints, the judiciary made an extraordinary effort to handle election petitions promptly following the first-ever multiparty elections of 2006. The entire backlog of election petitions was completed within a period of two months by the Supreme Court.

Economic Governance and Management

- Uganda’s macroeconomic management: Macroeconomic policy making is generally commendable as reflected, among other things, in the strong economic growth rate averaging 6.3 per cent between 1990 and 2007; a reduction in the incidence of poverty to 31 per cent in 2006; a reduction in inflation; and significant growth in savings and investment.

- The budget consultative process: The budget preparation process is highly consultative and follows a well-stipulated budget cycle taking close to nine months. Key to this broad-based consultative process is the real desire by the government to bring the budget closer to the people.

- Uganda Desk at the Uganda Investment Authority (UIA): The UIA has set up a unit within the institution – Uganda Desk – to promote and facilitate local investment. A total of 383 SMEs from nine districts have been trained in business start-up and business development skills.

- Uganda Parliamentary Budget Office: Uganda is one of the first countries in Africa to legally establish an independent Parliamentary Budget Office manned by experts to advise Parliament on the budget and the economy. The office is staffed by 20 economists, statisticians and information technology personnel, and is sufficiently computerised.

Socio-economic Development

- Free Universal Primary Education in Uganda: Primary school enrolment now stands at over 80 per cent. UPE also has a specific focus on the education of girls, the disabled and orphans. Of the current number of learners enrolled, 49.9 per cent are girls, implying that the country has attained the MDG target of gender parity at primary school level.

- Uganda's successful handling of the HIV/AIDS pandemic: Uganda's approach to addressing HIV/AIDS has been praised around the world. The overall prevalence of HIV/AIDS in Uganda has dropped by more than 50 per cent, from 18.5 per cent in the 1990s to 6.4 per cent in 2006.

- The role of President Museveni in the fight against HIV/AIDS: President Museveni did what no other African president or leader had ever done before. He recognized the devastating impact of HIV/AIDS on his country and was the first major African leader to speak out publicly about the dangers of AIDS. He mobilised his entire government to combat this threat and established Africa's first nationwide prevention efforts.

- The decentralisation process in Uganda: Since decentralisation began in 1993, numerous achievements have been realised in terms of improving governance and service delivery through democratic participation and community involvement.

5. CONCLUSION

lxxix. A holistic package of strategies, policies, programmes and plans, if fully targeted at the major strengths and challenges identified in the review process, will help entrench good governance and development in Uganda. These strengths and weaknesses are highlighted below.

5.1 Strengths

- Uganda's emergence over the past 20 years from economic decline, conflict and repressive governments to a relatively free society – a major turnaround in Africa;

- The country's macroeconomic stability and high economic growth rate;

- A decline in poverty from 56 per cent in 1992/3 to 31 per cent in 2006;

- Uganda's key role in facilitating regional peace and security, including negotiating and concluding the Comprehensive Peace Agreement for Sudan during President Museveni's tenure as Chair of IGAD, and installing a legitimate, democratically elected government in Burundi under the auspices of the Regional Peace Initiative for Burundi; Uganda has also remained engaged in Somalia and has contributed troops to the African Mission in Somalia;

- A significant measure of political liberalisation in Uganda, as evidenced by the emergence of a free media and civil society;

- A remarkable decentralised system of governance – as a result, there has been a reasonable level of participation in development policy formulation and planning at all levels;

- Several reputable higher institutions of learning – for example, Makerere University, established in 1922, is one of the oldest and most prestigious universities in Africa; it has had the honour of educating some of Africa's leaders, including former Tanzanian Presidents Julius Nyerere and Benjaminn Mkapa and Kenyan President Mwai Kibaki;

- One of the best records in Africa in raising school enrolment and reducing gender inequality in primary school attendance; and

- Uganda's achievement in combating HIV/AIDS, which is one of the few remarkable success stories in Africa.

Key Challenges

- The lack of structural transformation in the economy;

- A high rate of poverty and worsening inequality;

- A high population growth rate;

- The adverse effects of geography, which makes doing business more costly;

- The slowdown in the process of establishing a fledgling democracy, to the point that it is now being reversed;

- An uneasy peace with neighbours – Uganda's relations with its neighbours, especially the DRC and Sudan, are tense; and

- The need for modernisation and transformation of the mindset, attitudes and behaviours of its citizens; the challenge is to promote a culture of entrepreneurship and innovation.

lxxx. There is no doubt that, with determination, a concerted reform effort and political will, Uganda can leapfrog into the future as a prosperous middle-income country by 2030 and sustain growth at levels that can lift most of its people out of poverty. Uganda has to build on the successes highlighted in this report, while addressing the challenges, in order to claim its rightful place as the "Pearl of Africa".