NEW TOPIC

TOPIC: STRUCTURE OF UGANDA'S ECONOMY.

Learning Outcome

By the end of this topic, you should be able to;

i) describe the structure of Uganda's economy, agricultural, industrial, and informal and the foreign sectors of Uganda's economy.

ii) explain the implications the structure of each sector and suggest measures to improve.

Introduction

Let us first look at what structure of an economy means. An economy is an institutional framework through which resources are owned, allocated/distributed and utilised to produce goods and services in order to achieve development goals. A structure is the way in which the parts of something are connected together, arranged or organised. Therefore, structure of an economy refers the basic or salient features of an economy. When considering the structure of an economy, put into consideration the major sectors of an economy, the ownership and control of resources, the size, composition and strength of the sectors in the economy.

SALIENT FEATURES OF UGANDA'S ECONOMY

These are the major features that characterise the Economy of Uganda.

Uganda's economy is dominated by the agricultural sector. Majority of Uganda's population is employed directly or indirectly in the agricultural sector. It is also the major source of food and foreign exchange earner for the country.
It has a small but growing industrial sector. Most of the industries are small and mainly concentrated in urban or semi-urban areas. The few large industries are owned by foreigners. The industrial sector contributes less than 15% of GDP.
It has elements of dualism. A dual economy is one where there is co-existence of two contrasting sectors one being superior, modern and desirable and the other being inferior, traditional, backward and undesirable. Uganda is technologically, socially, economically and regionally dualistic in nature. However, the informal sector is developing gradually.
High level of excess capacity existing in many sectors. Many sectors produce at less than optimal capacity due to inadequate technical knowledge and capital.
It is a mixed economy. The ownership of resources, making of economic decisions and allocation of resources are undertaken by both the government and the private sector.
Highly dependent economy. Uganda heavily relies on foreign resources and foreign decision making for her survival and development.
High population growth rate. The population growth rate is about 3.4% which is very high due to high birth rate, high fertility rate and declining death rate.
Widespread unemployment and underemployment. This is due to abundant supply of unskilled and semi-skilled labour force in the country.
Underdeveloped infrastructure. Both the social and economic infrastructure in Uganda is still underdeveloped.
It is an open economy. The country highly depends on foreign trade in order to promote her development.
High level of illiteracy characterised by abundant supply of unskilled labour. This is due

to low levels of education.

IMPLICATIONS OF THE STRUCTURE OF UGANDA'S ECONOMY

Since the structure of Uganda's economy shows mainly unfortunate features, it obviously generates unfortunate implications and these are;

Unfavourable balance of payments position (B.O.P). This is mainly because of exporting agricultural products that fetch low prices therefore generating low foreign exchange earnings and importing expensive manufactured goods which increases import expenditure hence causing a B.O.P deficit.

Low personal income levels. This is due to the high levels of unemployment and the predominance of subsistence agriculture where many people receive no income.

Production of poor-quality goods. This is because of using poor methods of production and unskilled labour.

Low levels of technological advancement. This is caused by technological dualism in Uganda. There is still predominance of rudimentary/ backward skills of production in many parts of the country because of conservatism among people and limited capital.

Having predominantly unskilled labour. This arises from the high levels of illiteracy and as a result many people fail to acquire the necessary skills and training needed in the labour market.

Low levels of government revenue from taxes. This arises from the small industrial sector, high levels of unemployment and a big informal sector which create a narrow tax base in Uganda.

Low savings, low investments and low levels of capital accumulation. This arises from the high population growth rate which increases the dependence burden on the working population such that most of the income is for consumption. This gives rise to low savings among the working population, low levels of investments and finally low levels of capital accumulation.

Income inequalities arise. This is due to the high levels of unemployment and under employment where many people are not earning income or earning little while the few who are employed are earning high income.

Poor terms of trade. Import prices of manufactured goods always rise faster than the export prices of agricultural products. This gives rise to poor terms of trade in Uganda.

Low levels of Gross Domestic Product (GDP). This arises from production at excess capacity where some resources remain underutilised and less goods and services are produced in Uganda.

THE AGRICULTURAL SECTOR

Agriculture consists of crop husbandry, forestry, fishing and livestock keeping. It is the backbone of Uganda's economy. Over 75% of the people are dependent directly or indirectly on agricultural activities for their livelihood.

STRUCTURE/ FEATURES OF UGANDA'S AGRICULTURAL SECTOR

ACTIVITY.

1. **Conduct research from internet and other sources available to you and describe the features of Uganda's agricultural sector.**
2. **Explain the implications of the features identified above to the economy of Uganda.**
3. **Suggest ways of improving Uganda's agricultural sector.**

LESSON 4: THE INDUSTRIAL SECTOR

INTRODUCTION

The industrial sector in Uganda is small but steadily growing and expanding. The percentage contribution of the industrial sector to Uganda's GDP was small but is steadily increasing according to the national budget for the financial year 2019 – 2020.

FEATURES OF THE INDUSTRIAL SECTOR IN UGANDA

ACTIVITY

1. **Conduct research from internet and other sources available to you and describe the features of Uganda's agricultural sector.**
2. **Explain the implications of the features identified above to the economy of Uganda.**
3. **Suggest ways of improving Uganda's agricultural sector.**

LESSON 5: INFORMAL SECTOR, FOREIGN SECTOR AND ECONOMIC DEPENDENCE

Learning Outcomes

By the end of this topic, you should be able to:

i) describe the structure of informal and the foreign sectors of Uganda's economy.

ii) explain the implications the structure of each sector and suggest measures to improve each sector.

iii) explain the forms, causes, implications and solutions to economic dependence.

Introduction

THE INFORMAL SECTOR

Today there are many activities which have slowly developed from the traditional form of production and to being modernised. These activities are mainly carried out by self-employed people for example tailors, mechanics, furniture sellers, drivers, modern fabricators, food sellers, petty traders. All this falls under the informal sector. Therefore, the informal sector is an inter-mediate sector which exists between the modern sector and the traditional sector.

THE STRUCTURE OF UGANDA'S INFORMAL SECTOR

The structure of the informal sector in Uganda is described by the following characteristics:

1. Production is mainly on a small scale.
2. Predominantly use simple technology or labour-intensive technology.
3. Mainly located in urban and semi-urban areas.
4. Mostly produce low quality and quantity output.
5. Mainly run by sole proprietors.
6. Mainly produce consumer goods for the local or domestic market.
7. Basically, use local resources or inputs
8. The sector is characterised by basically low output or generally low productivity.
9. Production units mainly operate at excess capacity.
10. Private ownership of firms is dominant in the sector.
11. There is limited formal book keeping in the sector.

THE CONTRIBUTION OF THE INFORMAL SECTOR

The informal sector plays a vital role in the development of the country. Its Positive contribution includes the following:

Creates more employment opportunities: The informal sector creates jobs for many people since it mainly uses labour intensive tec. The employed earn income and are able to sustain their lifestyle.

Promotes innovations and inventions i.e. promotes technological development: In the long run, better and efficient techniques of production are developed in the informal sector which leads to technological development.

Promotes commercialization of the economy: The informal sector goods are sold in exchange for money thereby expanding the commercial sector of the economy.

Promotes entrepreneurial skills: Through the informal sector, people learn to bear risks and how to organise the available factors of production. This gives them the confidence to invest hence promoting entrepreneurship in the economy.

There is production of a wide variety of goods: There are many activities in the informal sector which results into provision of a variety of goods. This widens consumers' choice hence improving people's welfare.

Facilitates utilisation of local resources: There is use of local raw materials in the informal sector e.g. scrap materials, cotton in the textile industry, etc.

Provides a cheap training ground for local labour: As people work in the informal sector, they gradually learn new skills on the job. This leads to the development of local skills in the long run.

It leads to greater diversification of the economy: This arises from the many activities carried out in the informal sector.

There is production of locally affordable goods: As people are able to afford the goods produced in the informal sector, their standards of living is encouraged.

Increases the GDP/ output of the country: More goods are produced in the informal sector and this increases the country's national income/ GDP.

There is reduction in foreign exchange outflow: The informal sector produces goods that would have been imported. This cuts down on foreign exchange outflow.

To some extent, it contributes some revenue to the government: The investors in the informal sector pay for licenses to the government to be allowed to run their activities in a given time. They also pay some taxes to the government hence a source of government revenue.

Enhances a fairer distribution of income: As people earn income in the informal sector, the income gap between the rich and the poor is gradually reduced.

NEGATIVE IMPLICATIONS

Despite the positive contribution of the informal sector, it has negative effects which include the following:

Creates congestion in urban and sub-urban areas: This is because the sector is dominant in semi-urban areas thereby attracting many people in such areas. This results into a high crime rate and open urban unemployment.

Results into duplication of services due to wasteful competition: Many people get involved in one line of activity or one line of operation within the informal sector and yet they all serve the same market. This creates wasteful competition which finally results into resource wastage.

Causes pollution of the environment: Informal sector activities lead to air and water pollution especially in the areas of their operation due to poor disposal of wastes e.g. in Katwe and Kisenyi, metal scrap fabricators pollute the environment.

It causes public revenue instabilities: The informal sector is not a reliable and significant source of revenue to the government due to the unstable incomes of the operators and the poor record keeping that makes tax assessment difficult.

It is associated with high administrative costs: Sometimes the government uses local authorities like Kampala Capital City Authority (KCCA) to remove businesses of the informal sector from particular areas and this involves a high administrative cost on the part of government.

Hampers provision of quality services because the informal sector uses poor technology and unskilled labour: This results in production of poor-quality commodities that are sold at low prices.

Gives rise to disguised unemployment and under-employment: This is because of the small nature of the business activities in the informal sector.

SUB- TOPIC: ECONOMIC DEPENDENCE

"No man is an island" in our daily lives, we depend on other people for survival and for our welfare directly or indirectly. In the same way countries depend on others for their survival and / or development. Therefore, Economic dependence is a situation in which an economy mainly relies either on specific sector/sectors or on other countries for decisions and resources for her economic survival or development. Economic dependence may take the following forms: -

Direct economic dependence: This involves reliance of a country on foreign decisions or it is the reliance of an economy on other countries and international agencies for some of its economic and political decisions.

External resource dependence: This is where a country relies on foreign factor services such as foreign technology, foreign skills (expatriates) and foreign capital from other countries to supplement her productive resources. The foreign capital is in form of foreign investments and loans secured from other countries.

Trade dependence: This is the reliance of economy on international trade transactions. For example, Uganda exports a narrow range of primary products and import products like petroleum, industrial machines, chemicals, vehicles, military equipment etc from other countries

Sectoral dependence: This is the reliance of a country on one major sector or a few sectors for her economic survival. In Uganda, there is sectoral dependence on agriculture.

IMPLICATIONS OF ECONOMIC DEPENDENCE IN UGANDA

Demerits/negative implications of economic dependence in Uganda

N.B: No single country in the world desires to be dependent or to rely on other countries for its survival. For that reason, economic dependence is one of the macro-economic problems confronting Uganda's economy. Since it is a problem to the economy, it generates mainly negative implications only/undesirable outcomes. The negative side of economic dependence is explained below.

Creates balance of payments problems commonly called B.O.P problems: This arises from reliance on imports of capital, consumer and intermediate products which lead to rising foreign expenditure on buying goods from other countries. However, Uganda has low earnings from her exports and this creates a B.O.P deficit.

Encourages laziness i.e. discourages local initiatives: The country always relies on foreign capital and technology. This kills the initiative to develop our local methods of production and the country continues to rely on other countries for such technology.

Accelerates capital outflows in form of profit repatriation: Uganda relies on foreign investors who bring in capital and invest in various sectors of the economy. However, these investors repatriate profits to their mother countries and this slows down the development process in Uganda.

Worsens technological unemployment: This arises from reliance on imported capital in form of modern machines that replace human labour in production.

Low volume of imports due to low export earnings: Since earnings from exports are low, Uganda gets difficulties in financing her import expenditure especially imports of important consumer, capital and intermediate products.

Results into underutilisation of natural resources: There is reliance on external resources which renders exploitation of local natural resources to be neglected e.g. Uganda's dependence on oil imports may cause underutilisation of oil deposits in western Uganda.

Leads to economic domination of Uganda by foreigners: Foreign countries and organisations on which Uganda relies for external resources like capital, technology and skills dictate economic policies such as retrenchment, cost sharing, etc. such policies should be implemented for Uganda to get foreign assistance.

Discourages domestic savings and investments: Ugandans rely on buying goods and services from other countries, the capacity/ ability to save and invest is reduced.

Results into fluctuation of prices of agricultural exports: This arises from dependence on exportation of a few agricultural products whose prices are unstable on the world market e.g. prices of coffee, cotton, tobacco, vanilla, etc. The unstable export prices frustrate the exporters.

Leads to cultural erosion/ social cultural domination: Uganda relies on foreign capital that at times has negative strings attached. These negative cultural values destroy the morals of society e.g. promotion of homosexuality and lesbianism.

It discourages domestic savings and investment: Since Ugandans rely on buying goods and services from other countries; the capacity to save and invest is reduced.

SUB- TOPIC: THE STRUCTURE OF UGANDA'S IMPORTS AND EXPORTS

The Structure of Uganda's Foreign Trade /Imports and Exports Sector

Table 3: Showing the features / characteristics of Uganda's Foreign trade sector/ import and export trade:

Exports	Imports
Exports are mainly primary/agricultural products for example according to 2019 UCDA statistics, coffee contributes about 30% of Uganda's total export earnings.	Imports are mainly industrial / Manufactured products
Limited variety of exports	Imports are of wide variety
Basically, semi-processed or unprocessed products are exported/ exports are mainly of low value	Imports are mainly of high value/mainly fully processed
Limited range of markets for exports/ exports are mainly to few countries	Imports are mainly from few countries (geographical concentration of trade)
Few manufactured consumer goods are exported	Imports are mainly manufactured consumer and intermediate goods
Exports are mainly of low quality	Imports are mainly of high quality
Few services are exported	Many services are imported
Prices of exports are mainly low and fluctuating	Prices of imports are mainly high and stable
Exports are mainly of low volume/ quantity	Imports are mainly of high volume/ quantity

THE POSITIVE IMPLICATIONS OF THE FEATURES OF IMPORT AND EXPORT TRADE IN UGANDA INCLUDE THE FOLLOWING:

Foreign exchange earnings. This is got from the export of agricultural products.
Leads to economic growth. There is widened market for locally produced goods in other countries, this increases output thereby contributing to economic growth
Promote international friendship and trade (Co-operation). There is improvement in international relations because of the need to import from other countries as well as exporting locally produced goods to other countries
Leads to utilisation of idle resources. This is due to utilisation of the land resources to produce more agricultural products for export.

Provision of revenue to the government. Revenue is generated by the government through taxing some imports and exports.
Provides employment opportunities. There is provision of more employment opportunities in the import and export trade sector for example people involved in clearing goods and forwarding, insurers, transporters.
Promotes innovations and inventions in order to compete in the global market. The importation of industrial machines leads to transfer of better technology from other countries; this facilitates increased output as well as improving the quality of goods in Uganda.
Widens consumer choices due to importation of a variety of goods. High variety of goods imported leads to a wide consumer choice for goods and services in the country hence better standard of living.
Fills the technological gap/resource gap due to importation of intermediate products and capital goods. It encourages technological development and technology transfer because of high importance of capital goods.
Fills the manpower gap. It supplements the locally available skilled labour due to the importation of high level of foreign skilled manpower.
Improved quality of output due to competition with high quality imports. The high-quality manufactured imports help to improve the standards of living of the citizens.
Increased efficiency of local firms due to competition from better quality imports.

NEGATIVE IMPLICATIONS

Leads to poor terms of trade because of exporting mostly poor quality, unprocessed primary products that fetch low prices and importing expensive manufactured goods.
Leads to unfavourable balance of payments position due to limited variety of exports and high variety of imported goods, these results into more import/export expenditure compared to the foreign exchange earnings from abroad.
Underutilisation of some resources due to narrow range of exports.
High level of unemployment due to collapse of local industries as a result of competition from high quality imports.
Dependence on some countries, for example, for markets, supplies etc. it leads to trade dependence where by Uganda relies on a few export markets in the developed countries. The developed countries in most cases dictate prices at which they buy Uganda's exports.
High level of capital/income outflow due to importation of intermediate goods and expensive manufactured products.
Low foreign exchange earnings due to low price, low quality, low quantity and limited variety of exports.
Collapse of local firms due to competition from imports of high quality.
Leads to income inequality. Falling export prices of agricultural commodities lead to declining incomes of farmers and exporters, assuming other factors constant, this may worsen income inequalities in Uganda.
Fluctuations in foreign exchange earnings due to fluctuations in prices of exports.

Conclusion

Having looked at the structure of Uganda's economy; answer the following questions in your book.

ACTIVITY

a) **Explain why it is necessary to change the structure of:**
   i) **Informal sector**

   ii) **Import – export sector: in your country**

b) **Suggest measures to improve the structure of the above sectors in your country.**

c) **i) Account for the economic dependence in your country.**
   ii)Explain reasons why economic dependence is undesirable in an economy.
   iii)Suggest measures that should be taken to reduce economic dependence in your country.

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We thank God for the continued protection against the Corona Virus. You need to continue keeping yourself and family safe by observing the SOPs. Wash your hands regularly with soap or sanitize, wear a mask to cover the nose and mouth, observe the Social distance and avoid crowded places.