**THE STRUCTURE OF UGANDA’S ECONOMY**

An economy is the material resources and administration of a country. It is a system or vehicle through which the resources of a country are utilized to achieve the development goals of the country.

By structure of an economy, we mean the composition of the salient or basic features of an economy.

**SALIENT FEATURES OF UGANDA’S ECONOMY**

1. **It is dominated by the agricultural sector.** Majority of Uganda’s population is employed in the agricultural sector. It is also the major source of food and foreign exchange earner for the country.
2. **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**
3. **It is a dual economy.** 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.
4. **High level of excess capacity existing in many sectors.** Many sectors produce at less than optimal capacity due to inadequate technical knowledge and capital.
5. **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.
6. **Highly dependent economy.** Uganda heavily relies on foreign resources and foreign decision making for her survival and development.
7. **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.
8. **Widespread unemployment and underemployment.** This is due to abundant supply of unskilled and semi-skilled labour force in the country.
9. **Underdeveloped infrastructure.** Both the social and economic infrastructure in Uganda is still underdeveloped.
10. **It is an open economy.** The country highly depends on foreign trade in order to promote her development.
11. **High level of illiteracy characterized by abundant supply of unskilled labour.** This is due to low levels of education.
12. **The employment pattern is such that the majority of labour force is in the primary sector especially the agriculture sector.** Few Ugandans are engaged in manufacturing and very few of the labour force is found in the tertiary sector (service industry).

**IMPLICATIONS OF THE STRUCTURE OF UGANDA’S ECONOMY**

1. **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.
2. **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.
3. **Production of poor quality goods.** This is because of using poor methods of production and unskilled labour.
4. **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.
5. **Having predominantly unskilled labour.** This arises from the high levels of illiteracy and as a result of many people failing to acquire the necessary skills and training needed in the labour market.
6. **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.
7. **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.
8. **Acute income inequalities arise.** This is due to the high levels of unemployment where many people are not earning income while the few who are employed are earning high income.
9. **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.
10. **Foreign domination of the economy.** This arises from reliance on decisions made by other countries as well as reliance on foreign skilled labour, foreign technology and capital.
11. **Low labour productivity.** This arises from labour having low skills as a result of high levels of illiteracy among people.
12. **Low levels of Gross Domestic Product (GDP).** This arises from production at excess capacity where some resources remain underutilized and less goods and services are produced in Uganda.

**MEASURES THAT CAN BE TAKEN TO IMPROVE UGANDA’S ECONOMY**

1. **Develop infrastructure.** The government can construct and rehabilitate the infrastructure especially the road network to enable movement of raw materials to production centres and finished goods to market areas. This can encourage more investment in the economy.
2. **Widen market both local and foreign.** The government can expand the market through joining regional economic integration like east African community, COMESA, etc. This can encourage more investments in the country because of the assured market for goods.
3. **Provide affordable capital for investment.** The government can offer loans at low interest rate for investment. This can help to expand the capital base of the investors and result into increase in output.
4. **Stabilize the political climate.** The government can ensure relative peace in different parts of the country to give confidence to investors thereby creating an increase in the level of production.
5. **Provide investment incentive like tax holidays, allocation of land for industries etc.** This can encourage investors to set up more production units in the country.
6. **Control population growth rates.** This can be done through promoting family planning in order to reduce the dependence burden on the working population. This can increase the level of savings and investments in the country.
7. **Improve the techniques of production through research.** The government can encourage technological development and transfer as a way of promoting better techniques of production that can cause increase in the volume of output and improvement in the quality of output.
8. **Improve the land tenure system.** The government can carry out land reforms to give investors chance to buy land on which to set up production units.
9. **Modernize agriculture.** The can encourage the transformation of agriculture from subsistence production to commercial oriented production. This can increase the supply of raw materials and food in the country.
10. **Diversify the economy.** The government can encourage the starting up of many economic activities in the country in order to reduce dependence on agriculture e.g. promote industrialization.
11. **Provide labour with skills through training.** This can enable labour to acquire the necessary skills for production.
12. **Improve entrepreneurship skills.** This can help in ensuring proper organization of factors of production in order to increase output.

**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 on agricultural activities for their livelihood.

**FEATURES OF UGANDA’S AGRICULTURAL SECTOR**

1. Depend on family labour.
2. Mainly rural based.
3. Mainly small scale i.e. farming is mainly carried out on a small scale.
4. Mainly labour intensive or mainly uses simple tools or rudimentary technology.
5. Mainly dependent on nature.
6. Mainly low quality output of output.
7. Dominated by subsistence production or production is largely for subsistence.
8. Uses mainly unskilled labour and semi-skilled labour.
9. Production is mainly for the local market.
10. Quantity of output is generally low. The sector mainly produces food stuffs or there is a narrow range of cash crops. There is a narrow range of products for export.

**IMPLICATIONS OF THE STRUCTURE OF THE AGRICULTURAL SECTOR**

**POSITIVE IMPLICATIONS**

1. Provides employment opportunities. Agriculture provides employment opportunities to many people either directly or indirectly due to being mainly labour intensive.
2. Reduces dependence on food imports. This is because the sector mainly produces foodstuffs for the rural and urban population in the country.
3. Promotes the growth of the industrial sector. This is because the sector is the major supplier of raw materials to agro processing industries.
4. Source of foreign exchange earnings due to exportation of some of the food crops and cash crops. This helps to improve on the balance of payments position of the country.
5. Provision of revenue to the government. This is in form of market dues and taxes imposed on farmers carrying out commercial production.
6. Encourages the utilization of the land resources especially in the rural areas where agricultural production is dominant.
7. Promotes economic growth. The production of food crops and cash crops leads to increase in output from the agricultural sector thereby promoting economic growth.
8. Promotes development of infrastructure especially the road network in rural areas. This is to enable easy transportation of agricultural output from the production areas to the market centres.
9. Provides market for the output of the industrial sector. The agricultural sector avails market to industrial output e.g. fertilizers, tractors, manufactured goods required by the workers, etc.

**NEGATIVE IMPLICATIONS**

1. Balance of payment problems or unfavourable B.O.P. This arises from having a narrow range of exports from the sector hence low export earnings for Uganda.
2. Fluctuating prices of agricultural products. This arises from dependence on nature which causes instability in output and prices.
3. There is seasonal unemployment. This arises from dependence on nature whereby due to changes in climate, farmers are unemployed between harvesting and planting seasons.
4. Unfavourable terms of trade (T.O.T). This arises from the sale of low quality agricultural exports from Uganda at low prices compared to importation of expensive goods. This results into poor terms of trade.
5. Persistent high poverty levels in Uganda due to the dominance of subsistence farming where farmers produce for own consumption and have little or nothing for sale.
6. Income inequalities are worsened. The farmers continue earning less than the industrial workers due to subsistence production and this worsens income differences in Uganda.
7. Limited markets for the agricultural products on the world market. This arises due to the poor quality goods from the agricultural sector that cannot compete on the world market.
8. Unstable or fluctuating incomes in the agricultural sector. This arises from dependence on nature which causes fluctuating production levels. This gives rise to unstable incomes to farmers.
9. Limited technological growth in the sector. This is due to use of simple tools in farming e.g. pangs, hand hoes, etc. this results into low levels of innovations.
10. Low government revenue is generated from the agricultural sector. This arises from the sector being mainly subsistence and organized on a small scale. Subsistence production limits the size of tax revenue collected by government from the agricultural sector.
11. Accelerates or exacerbates economic dependence. This is due to the narrow range of exports from the agricultural sector and as such it contributes less foreign exchange to the government. The country has to rely on other countries to fill this foreign exchange gap.
12. Structural inflation may arise. This is due to dependence on nature for production that may cause shortages in the supply of agricultural output in times of bad weather.

**REASONS FOR CHAGING THE STRUCTURE OF THE AGRICUTURAL SECTOR IN UGANDA**

1. To reduce seasonal unemployment by avoiding over dependence on nature. This is done through encouraging agricultural modernization e.g. irrigation that ensures continuity in production thereby expanding employment opportunities.
2. To widen the range of products for exports. This is achieved through encouraging agricultural diversification that increases on the range of products for exports e.g. exportation of flowers, avocado.
3. To facilitate increase in output hence economic growth. This is achieved through encouraging agriculture research that avails high yielding varieties like colonial coffee thereby increasing on the quantity of output from the agricultural sector.
4. To reduce income inequalities that is common due to subsistence production. This is achieved through encouraging commercial production that increases the producer’s income because most of the output is put on the market.
5. To increase foreign exchange earnings. This is achieved through promoting agricultural diversification and the use of improved techniques of production that results in increase in the quantity of output for foreign markets. This leads to increase in export earnings thereby improving the balance of payment of payment position.
6. To provide more revenue to the government. This is achieved through expanding the scale of production by way of encouraging commercialization of agriculture. This enables the government to charge taxes on commercial agriculture in order to raise more revenue.
7. To promote the growth of the industrial sector by providing a wide range of raw materials. This is achieved through promoting agricultural diversification that avails a variety of raw materials to the agro based industries.
8. To release labour to other sectors of the economy. This is achieved through mechanization of agriculture whereby machines replace labour in production. This encourages the surplus labour to look for employment opportunities in other sectors e.g. the informal sector, tourism sector, industrial sector, etc.
9. To stabilize agricultural output by making it less vulnerable to natural condition. This is achieved through promoting irrigation that enables continuity in agricultural production.
10. To avoid/ control structural inflation. This is achieved through increasing the quantity of output from the agricultural sector by way of encouraging mechanization, diversification and agriculture research. This results in stable prices for the agriculture products.
11. To improve the terms of terms. This is achieved through encouraging agricultural research that results in production of high quality agricultural products for the export market thereby fetching high prices on the world market compared to the prices of imports.
12. To monetize the economy by reducing the dominance of subsistence production where barter exchange is encouraged. This is achieved through encouraging commercial production which facilitates the growth of the commercial sector.
13. To promote food security and ensure a healthy population. This is achieved through providing better inputs to farmers thereby encouraging them to grow a variety of food crops for food consumption.

**THE INDUSTRIAL SECTOR**

The industrial sector in Uganda is small but steadily growing and expanding. The percentage contribution of the industrial sector to Uganda’s GDP according to the national budget for the financial year 2014 – 2015 is at ……..

**FEATURES OF THE INDUSTRIAL SECTOR IN UGANDA**

1. It is dominated by small scale industries.
2. It is mainly comprised of processing industries.
3. Most of the firms in the sector are privately owned i.e. most of the industries are owned and run by private entrepreneurs.
4. The sector is mainly urban based.
5. There is use of simple labour intensive technology in most of the firms.
6. The sector mainly produces low quality goods.
7. They are mainly import substituting industries i.e. the industries mainly produce formerly imported goods.
8. The industrial firms mainly produce at excess capacity/ mainly low quantity of output is produced.
9. The sector has high imported raw materials intermediate product content.
10. Many firms use unskilled and semi-skilled labour.
11. It produces mainly consumer goods like sugar, salt, bread, etc.
12. It has limited linkages with other sectors of the economy.
13. Industries which produce durable consumer goods are mostly assembling plants e.g. industries that assemble small tractors, bicycles, radios, etc.
14. Many of the industries are agro – based i.e. many of the industrial firms use raw materials like coffee, cotton, etc.

**IMPLICATIONS OF THE STRUCTRURE OF THE INDUSTRIAL SECTOR**

**POSITIVE IMPLICATIONS**

1. Creates more employment opportunities. This is because the sector mainly uses labour intensive techniques of production that is employment creating for the labour force.
2. Provides market to other sectors like agriculture due to linkages. This arises from increased use of raw materials from the agricultural sector e.g. the use of cotton lint by the textile milling industries.
3. Encourages self reliance or sufficiency in the economy to some extent i.e. reduces external dependence. This arises from setting up mainly import substitution industries that produce commodities which Uganda would have imported from other countries.
4. Improves the terms of trade. This is because the processing industries add value to the export commodities. as a result, these export commodities attract higher prices abroad thereby leading to improvement in the terms of trade.
5. Provides a wider source of revenue to the government through taxation. This is because most of the industries are and run by the private entrepreneurs who pay taxes to the government thereby increasing the source of public revenue for expenditure on development activities.
6. Improves the balance of payments position. This is because many of the import substitution industries reduce foreign exchange expenditure and in a long run export their products thereby increasing export earnings which improve the balance of payments position.
7. Encourages or promotes the development of infrastructure. this is because many of the medium and large scale industries are mainly in urban areas of Kampala, Mukono, Mbarara, etc. which has encouraged the setting up and expansion of basic infrastructure like roads, banks, communication facilities etc in order to support industrial activities.
8. Encourages technological development. this is as a result of the existence of small scale industries that have enabled the emergency of local artisans or innovators making industrial machines in Katwe. This leads to new techniques of production being developed through local inventions and innovations.
9. Enhances skills development through training of labour. People working in mainly small scale industries are trained and given skills to work as technicians, production supervisors, etc thereby promoting the acquisition of skills by the local people.
10. Results into increased output hence contributing to the country’s GDP. The basically import substitution industries produce more industrial goods in Uganda and this increases the economic growth rate.
11. Promotes the utilisation of would be idle resources. This because many of the industries are agro-based thereby utilising the locally available agricultural raw materials like coffee, cotton.
12. It reduces income inequality to a certain extent. This is because the industries are labour intensive availing income earning opportunities to many of the local people.
13. Reduces the size of the subsistence sector thereby acting as an engine for rapid economic transformation. Through the industrial sector, the economy is transformed from being subsistent to an industrialised and commercialised economy.

**NEGATIVE IMPLICATIONS**

1. Encourage rural urban migration and its negative consequences. This is due to the concentration of industrial activities in urban areas that encourages people mainly the unskilled to move away from rural areas to urban areas causing evils like open urban unemployment, creation of slums, high crime rate. Etc.
2. Leads to poor quality output put on the market. This is due to use of mainly simple methods of production that results in production of output that is not competitive on the world market.
3. Breeds regional imbalance in development. This is because the urban areas where many of the medium and large scale industries are found develop at a faster rate through construction of better infrastructure compared to the rural areas.
4. Encourages external economic dependence. Many industrial firms depend on imported machines and raw materials which lead to over reliance on other economies.
5. Worsens the balance of payments position. This is due to the high content of imported raw materials and the low earnings from exportation of poor quality industrial goods.
6. Leads to low levels of output hence low levels of economic growth. This is due to dominance of small scale industries, operation at excess capacity and the use of unskilled labour.
7. Worsens the problem of income inequality. this arises because the industrial entrepreneurs and workers earn more than the farmers and people involved in the informal sector. this creates an income gap between people involved in the industrial sector and agriculture or informal sector.
8. Contributes low government revenue. This due to dominance of small scale industries from where the government gets low tax revenue.
9. Leads to increased capital outflow through profit repatriation. This is because many of the large scale industries are owned by foreign investors who send their profits to mother countries.
10. In the long run there is technological unemployment as large scale firms become capital intensive. They substitute manual labour with machines e.g. NYTIL, Picfare, Nile breweries.

**PROBLEMS FACED BY THE INDUSTRIAL SECTOR IN UGANDA**

1. **Limited capital.**

Due to limited capital, few factor inputs are bought for use in production. This lowers production in industries and limits industrial growth in Uganda.

1. **Poor infrastructure e.g. poor roads.**

The poor infrastructure makes it difficult to transport raw materials to industries and the finished goods to the marker. This limits the growth of the industrial sector in Uganda.

1. **Political unrests in some areas.**

Insecurity in form of riots scares investors from setting up industries for fear of making of making losses, losing life and industrial property. This limits growth of the industrial sector.

1. **Poor technology.**

The use of poor technology that is mainly labour intensive results in poor quality output that is not competitive on the world market. This leads to low industrial development.

1. **Weak entrepreneurial/ managerial skills.**

Few individuals in the country have the ability to bear risks in industrial ventures. They are not able to organise factors of production in order to set up new industries or expand the existing industries. This leads to low industrial growth.

1. **Limited skilled manpower.**

Limited skilled manpower makes it difficult to efficiently run industries. It also becomes difficult to start up industries or expand them when there is limited skilled manpower. This limits the growth of the industrial sector.

1. **Limited market or stiff competition from foreign goods.**

Limited market discourages potential investors from establishing industries and the existing industries do not expand for fear of making losses or wastage of resources.

1. **High taxes which are a disincentive to industrialists.**

High taxes increase the cost of production. The high taxes e.g. on raw materials discourage potential investors and reduce the volume of industrial goods produced by the existing industries. This leads to low industrial development.

1. **Corruption in the system.**

Government officials demand for bribes from industrial investors before approving their business plans or before issuing them with licenses. This frustrates private investors and causes slow growth of the industrial sector.

1. **Poor land tenure system in some areas.**

The poor land tenure system in some areas where there is communal ownership limits accessibility to land by investors which discourages potential investors from establishing industries or expanding the existing industries.

1. **Poor performance of the agricultural sector yet it is supposed to be the main source of raw materials for agro-based industries.**

Low production in the agricultural sector makes the agro-based industries to supply few basic raw materials. As a result of this, output from industries declines leading to slow growth of the industrial sector.

1. **Under developed capital market.**

The under-developed capital market limits the selling and buying of shares of industrial companies. Limited capital is mobilised from the public through selling shares of industrial companies. Many industries remain operating on a small scale hence slow growth of the industrial sector.

**MEASURES BEING TAKEN TO IMPROVE THE INDUSTRIAL SECTOR IN Uganda**

1. **Development of infrastructure.**

The developing of a better road network is encouraging the transportation of industrial raw materials as well as finished industrial goods to market places. This is encouraging more investors to set more industries hence improving the industrial sector in Uganda.

1. **Stabilising/ improving the political climate.**

A stable political climate is giving confidence to investors to set up more industries since they are assured of security of life and their investments. This is creating an increase in industrial production hence improving the industrial sector.

1. **Widening market for industrial goods.**

By widening market through regional economic integration/ co-operation, more investors are setting up industries since they are assured of the market for their goods and this is improving the industrial sector in Uganda.

1. **Providing affordable capital for investment e.g. “entandikwa/ start-up capital.**

Loans at lower interest rates are being given to industrial investors. This is helping them to expand their capital base and the level of output hence improving the industrial sector in Uganda.

1. **Improving the land tenure system.**

The system of ownership, use and distribution of land in Uganda is being improved e.g. the passing of the land act. This is giving confidence to investors to buy land on which to set up more industries and hence the size of the industrial sector is expanding.

1. **Fighting corruption.**

By fighting corruption, the money set aside by the government for supporting the industrial sector is properly is used. This is helping in adequately financing industrial activities as planned by the government and industries are being helped to expand.

1. **Fighting inflation or stabilising prices.**

The government is controlling inflation through monetary and fiscal policies. Stable prices are encouraging better planning by the industrial producers since the costs of production are kept stable. This is encouraging the setting up of more industries in Uganda.

1. **Improving the investment climate by providing incentives.**

Incentives in form of tax holidays, allocating land for industries are being extended to local and foreign investors who want to set up industries. This is encouraging more investors to set up industries in Uganda and this is improving the industrial sector in Uganda.

1. **Liberalising the economy.**

Government is removing unnecessary controls on trade and its giving more liberty to people to engage in industrial production. This is creating an expansion in industrial production in Uganda thereby improving the industrial sector.

1. **Modernising agriculture.**

Agriculture is being modernised through irrigation to increase supply of basic raw materials to the many agro-based industries in Uganda. The constant supply of raw materials to industries from agriculture sector is ensuring continuous production hence improving the industrial sector in Uganda.

1. **Providing labour with skills through training.**

The government is carrying out reforms in the education system in order to train people in tertiary institutions to acquire skills as industrial technicians and engineers. This is enabling industries to employ competent workers to be in charge of repairing and maintaining machines in the industrial plants.

1. **Further privatisation of public enterprises is being undertaken.**

Further privatisation is encouraging private entrepreneurs to invest in industrial enterprises that used to be run by the government. This is causing an expansion in private investment in industries hence improving the industrial sector in Uganda.

1. **Improving entrepreneurship skills.**

The Uganda industrial research institute is training people to acquire better skills in managing industrial enterprises. This is helping in ensuring that factors of production are well organised and coordinated by entrepreneurs in industries to increase output.

1. **Promoting technological development through research.**

The use of better techniques of production is causing an increase in the volume of output and improvement in the quality of products. This is enabling producers to create a wider market for the high quality goods thereby improving the industrial sector.

**FACTORS THAT INLUENCE THE DEVELOPMENT OF THE INDUSTRIAL SECTOR IN UGANDA**

1. **Availability f raw materials.**

Increased availability of raw materials especially for the agro-based industries leads to high level of industrial production hence high industrial development and limited raw materials for the agro-based industries results into low industrial production thereby leading to slow growth of the industrial growth of the industrial sector in some areas.

1. **Availability of market for industrial goods.**

A widened market for industrial goods encourages more investors to set up industries since they are assured of market for their goods thereby leading to high levels of industrial development while limited market results into wastage of resources used in the production of industrial products thereby discouraging investment in the industrial sector.

1. **Government policy on industrial development e.g. taxation and land allocation.**

Favourable government policy on industrial development through provision of tax holidays and land allocation reduces the cost of production and increases profitability of investments thereby leading to high industrial development while unfavourable government policy on industrial development in form of high taxes results into low profits for industrial investors thereby slowing the growth of the industrial sector in Uganda.

1. **Level of technology.**

The use of improved techniques of production e.g. capital intensive techniques results into large scale industrial operation and production of quality output thereby leading to high industrial development while increased use of poor techniques of production in form of labour intensive techniques encourages small scale operation and production of poor quality output that are not competitive thereby leading to low industrial development.

1. **Political climate.**

Political climate gives confidence to entrepreneurs to set up industrial plants thereby leading to high industrial development while political instability creates fear among people because they are not sure about the security of their life and industrial property thereby leading to low industrial development.

1. **Level of infrastructural development.**

High level of infrastructural development in form of good roads increases accessibility to raw materials for industries and market for industrial products thereby leading to industrial development while poor infrastructure in form of poor roads limits access to raw materials for industrial output thereby leading to low industrial development.

1. **Level of capital stock.**

Increased capital stock enables better machinery and more factor inputs thereby leading to high industrial development limited capital stock results into acquisition of poor machinery and few factor inputs thereby leading to slow growth of the industrial sector.

1. **Availability of land or the existing land tenure system.**

A favourable land tenure system where there is private ownership of land leads to high level of industrial development because of increased access to land resources while poor land tenure system e.g. communal ownership of land hinders the setting up of industries due to lack of access to the land resources thereby leading to low industrial development.

1. **Level of accountability in the industrial sector.**

High level of corruption results into diversion of funds meant for industrial projects and denial of licenses to set up industries which leads to low industrial development while low levels of corruption result into adequate financing for industrial activities thereby leading to high industrial development.

1. **Size and quality of labour force.**

High levels of skills of the labour force make it possible to effectively run industries thereby leading to high industrial development while limited skills of the labour force result into inefficiency and production of poor quality output that is not competitive thereby limiting industrial development in the country.

1. **Level of entrepreneurial skills.**

High level of entrepreneurial skills enable proper organisation of other factors of production thereby leading to high industrial development while low level of entrepreneurial skills results into poor organisation of other factors of production thereby limiting industrial development in the country.

1. **Level of economic stability/ rate of inflation.**

High rates of inflation increase the cost of production by making the acquisition of raw materials and power expensive thereby limiting industrial development while low rates of inflation increase the profitability of the industrial investment due to the low cost of production incurred by investors thereby leading to high industrial development.

**THE CONCEPT OF DUALISM**

Dualism refers to the co-existence of two contrasting social economic situations one being superior and desirable and the other is inferior and undesirable.

**NB**

A dual economy refers to an economy where there is co-existence of two contrasting sectors or phenomena one advanced/ modern/ superior and the other backward/ traditional/ inferior which are mutually exclusive to different groups of the economy.

**Examples of features of dualism**

* Co-existence of literate and illiterates
* Co-existence of barter exchange and monetary exchange
* Co-existence of commercial sector and subsistence sector
* Co-existence of modern technology alongside traditional technology
* Co-existence of capital intensive technology alongside traditional technology
* Co-existence of high income and low income earners/ co-existence of the rich and the poor people.
* Co-existence of developed regions alongside undeveloped regions.
* Co-existence of traditionalists and modernists
* Co-existence of formal and informal sectors
* Co-existence of developing countries and developed countries.

**FORMS/ TYPES OF DUALISM**

1. **Technical dualism.**

Modern technology existing alongside traditional

1. **Income dualism.**

Rich existing alongside the poor

1. **Sectoral dualism**

Agriculture existing alongside industry

1. **Intra-sectoral dualism**

Commercial production alongside subsistence production

1. **Literacy dualism**

The literate existing alongside the illiterates

1. **Exchange dualism**

Barter exchange alongside monetary

1. **Formal dualism**

Formal sector existing alongside the informal sector

1. **Social economic dualism**

Traditionalists existing alongside modernists i.e. traditional values existing alongside western values

**NB**

Economic dualism is the co-existence of two contrasting economic situations in a country one being desirable and the other being inferior and undesirable.

**Merits of dualism**

* It increases employment both in the formal and informal sector.
* Government raises a lot of revenue through progressive taxation of the modern sector or the rich.
* It provides an impetus for research and planning to identify ways and means of developing the economy.
* It fosters factor mobility from the traditional sector to the modern sector.
* It promotes diversification in the economy due to existence of firms in both the formal and informal sectors of the economy.

**Limitations of a dual economy**

* Creates rural urban imbalances with the rural sector lagging behind the urban sector.
* Creates a problem of planning e.g. it is difficult to decide which sector to boost up first.
* Results into rural urban migration and its negative effects like open urban unemployment.
* High levels of technological unemployment due to adoption of capital intensive technology.
* Excess capacity in the backward sector of the economy.
* Income and wealth inequalities increase.
* Creates conflicts between beliefs, religion and values in society.

**THE INFORMAL SECTOR**

The informal sector is one that lies between the modern sector and the traditional sector and it mainly comprises of self employed people.

It is mainly made up of tailors, mechanics, furniture sellers, drivers, modern fabricators, food sellers, petty traders.

**Characteristics/ features of an informal sector**

* Production is mainly on a small scale.
* Predominantly use simple technology or labour intensive technology.
* Mainly semi or sub urban based i.e. mainly located in urban and semi-urban areas.
* Mostly produce low quality output.
* Mainly run by sole proprietors.
* Mainly produce for the local or domestic market.
* Basically use local resources or inputs
* The sector is characterised by basically low output or generally low productivity.
* Poor or limited book keeping.

**THE CONTRIBUTION OF THE INFORMAL SECTOR**

**Positive contribution**

1. **Creates more employment opportunities.**

The informal sector creates jobs for many people since its labour intensive. The employed earn income and are able to sustain their lifestyle.

1. **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.

1. **Promotes commercialisation of the economy.**

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

1. **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.

1. **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.

1. **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.

1. **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.

1. **It leads to greater diversification of the economy.**

This arises from the many activities carried out in the informal sector.

1. **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.

1. **Increases the GDP/ output of the country.**

More goods are produced in the informal sector and this increases the country’s national income/ GDP.

1. **There is reduction in foreign exchange outflow.**

The informal sector produces goods that would have been imported. This cuts down on foreign exchange outflow.

1. **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.

1. **Enhances a fairer distribution of income.**

As people earn income in the informal sector, the income gap among people involved in other sectors is gradually reduced.

**Negative implications**

1. **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.

1. **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.

1. **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.

1. **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.

1. **It is associated with high administrative costs.**

Sometimes the government uses local authorities like KCCA to remove businesses of the informal sector from particular areas and this involves a high on the part of the government.

1. **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.

1. **Gives rise to disguise unemployment and under-employment.**

This is because of the small nature of the business activities in the informal sector.

**RELATIONSHIP BETWEEN THE INFORMAL SECTOR AND SMALL SCALE INDUSTRIES**

* Both sectors produce low output since they operate on small scale.
* Both sectors mainly use local resources.
* Both sectors mainly require little capital for establishment and maintenance.
* Both sectors mainly use labour intensive techniques of production.
* Both sectors are mainly urban or semi-urban based.
* Both sectors mainly produce consumer goods for the local market.
* Both sectors make a low contribution to government revenue.
* In both sectors, production units operate at excess capacity.
* Private ownership of firms is dominant in the two sectors.
* There is limited formal book keeping in the two sectors.

**ECONOMIC DEPENDENCE**

Economic dependence is the reliance of an economy on other economies for decisions and resources or on a specific sector for her survival (development).

Economic dependence is manifested in the following ways or forms;

1. **Direct economic dependence.**

This involves reliance of an economy on foreign economic and political decisions e.g. Uganda relies on decisions of the IMF and World Bank e.g. privatisation, liberalisation, cost sharing in education and wealth, retrenchment, etc.

1. **External resource dependence**

This is where a country relies on foreign factor services such as foreign technology, foreign skills and foreign capital e.g. Uganda gets loans from the IMF and World Bank.

1. **Trade dependence**

Uganda relies on international trade transactions by exporting primary products to other countries, importing products like petroleum, vehicles, drugs and industrial machines from other countries, exports to particular foreign markets, etc.

1. **Sectoral dependence**

This is the reliance of a country on one major sector or a few sectors for her economic survival e.g. Uganda relies mainly on agriculture.

**IMPLICATIONS OF ECONOMIC DEPENDENCE IN UGANDA**

1. **Creates balance of payments problems commonly called B.O.P problems.**

This arises from reliance on imports of capital, consumer and intermediate products which leads 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.

1. **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.

1. **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.

1. **Worsens technological unemployment.**

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

1. **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.

1. **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.

1. **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.

1. **Discourages domestic savings and investments.**

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

1. **Worsens external debt burden.**

This is caused by reliance on foreign capital (loans) from other countries, the World Bank and IMF. The country has sacrificed a lot to pay back the foreign debt with interest.

1. **The economy is subjected to inappropriate and undesirable external decisions.**

Uganda relies on other countries for decisions which may not be desirable to the country for example foreign governments may dictate that priority should be given to industries yet education and health deserve to be given priority and funding. This frustrates the population.

1. **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.

1. **Breeds political domination of Uganda by foreigners.**

Direct economic dependence involves adopting political decisions made by foreign countries and institutions. This causes loss of political independence in Uganda since major political decisions are made by foreign countries and donor organisations e.g. they moved to multi-party democracy in 2000.

1. **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.

**NB**

When they say in your country, negatives only

When they say in an economy, give some positives.

**Positive implications of economic dependence**

* Promotes economic growth
* Helps to cover the skilled manpower gap
* Helps to cover the technological gap
* Helps a country acquire financial resources.

**MEASURES TO REDUCE ECONOMIC DEPENDENCE**

1. Diversification of the economy in order to reduce dependence on agriculture.
2. Promoting import substitution strategy of industrialisation in order to reduce reliance on imported goods.
3. Training of local labour to reduce dependence on foreign manpower. Developing local technology in order to reduce dependence on foreign technology.
4. Provision of investment incentives to local producers e.g. free land allocation, tax holidays, expansion and rehabilitation of infrastructure.
5. Encouraging local savings and investment to avoid over relying on foreign investors.
6. Improving the political climate in order to encourage investment so as to avoid dependence on imports.
7. Carrying out proper and effective planning.
8. Diversification of the market.

**NB**

1. **Economic interdependence.**

This refers to a situation in which two or more economies rely on each other for mutual benefit of all e.g. countries in the community.

1. **Geographical concentration of trade.**

This is where a country relies on exports to a few markets.

1. **Commodity contraction on trade.**

Is where a country relies on a few traditional exports e.g. coffee, cotton.