UGANDA ECONOMIC UPDATE

23rd Edition

Improving Public Spending on Health to Build Human Capital

THE WORLD BANK
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Abbreviations

BoU	Bank of Uganda
CatHE	Catastrophic Health Expenditure
CFR	Charter for Fiscal Responsibility
CHE	Current Health Expenditure
COVID-19	Coronavirus Disease 2019
DSA	Debt Sustainability Analysis
FDI	foreign direct investment
FY	fiscal Year
GDP	gross domestic product
GoU	Government of Uganda
HAQ	Health Access and Quality
HCDP	Human Capital Development Program
HCI	Human Capital Index
HIV/AIDS	Human Immunodeficiency Virus and Acquired Immunodeficiency Syndrome
HRH	Human Resources for Health
IMF	International Monetary Fund
MMR	Maternal Mortality Ratio
NCDs	Non-communicable diseases
NDP	National Development Plan
NPA	National Planning Authority
OECD	Organization for Economic Co-operation and Development
OOP	Out-Of-Pocket
PER	Public Expenditure Review
PFM	Public Finance Management
PFP	Private-for-Profit
PHC	Primary Health Care
PMI	Purchasing Managers Index
PNFP	Private-Not-For-Profit
PRIR	Petroleum Revenue Investment Reserve
SDG	Sustainable Development Goals
SSA	Sub Saharan Africa
SHP	Skilled Health Personnel
USh	Ugandan Shilling
UHC	Universal Health Coverage
UNHS	Uganda National Household Survey
VAT	Value Added Tax
WHO	World Health Organization

Foreword

The Ugandan economy remains resilient amid intensifying climate shocks and a challenging global environment. Economic activity has been robust due to strong oil-related industrial activity and a growing mining and quarrying sector. Although agricultural production was affected by adverse weather, supply conditions improved, and moderating prices for food and essential goods supported improvements in household welfare. Monetary and fiscal policy changes in advanced economies led to higher portfolio outflows, which intensified depreciation pressure on the Ugandan shilling in the first half of 2024, while declining disbursements from external development partners contributed to the erosion of international reserves. Despite Uganda's economic resilience, its growth trajectory is vulnerable to multiple downside risks. A volatile geopolitical environment, including potential spillover effects of the conflict in the Middle East, could weigh on investment and exports, while the increasing frequency of droughts and floods heightens the vulnerability of Uganda's businesses, farms, and households. Public spending allocation choices also pose a threat to the country's long-term development trajectory.

Human capital—the knowledge, skills, and physical health that enable people to be productive—will play a pivotal role in Uganda's development. The population is projected to increase by 60 percent in the next 20 years, yet due to chronic investment in human capital a child born in Uganda today will grow up to be only about 38 percent as productive as she would have been had she received a complete education and full health. For Uganda to benefit from a demographic dividend, the government will need to invest more resources in education, health, and social protection while leveraging efficiency gains to maximize the impact of its limited resources. In addition, providing equal access to human capital development is key to addressing the inequality of opportunities and making future growth more inclusive.

This 23rd edition of the Uganda Economic Update focuses on how to improve public spending on health. Complementing the previous edition, which focused on education spending, this analysis is designed to inform a comprehensive strategy for generating a demographic dividend that lifts living standards and improves the welfare of Ugandan households. Spending on health has been consistently low and has failed to keep pace with population growth. Underinvestment and expenditure inefficiency contribute to inadequate and inequitable access to healthcare and perpetuate poor health outcomes. The World Bank continues to support Uganda's efforts to address these challenges and to seize this critical and fleeting opportunity to accelerate growth and development by investing in the future productivity of its people.

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Executive Summary

Real GDP growth acceleration

5.3%

Real GDP growth accelerated from 5.3% in FY22/23

6%

Accelerated to an estimated 6% in FY23/24

6.2% in FY24/25
projected GDP growth

Over 7%
acelerated growth in the medium term

Exports and manufacturing orders increased
between August 2023 and May 2024.

Executive Summary

The State of Uganda's Economy

Economic activity has remained resilient despite multiple successive shocks. Real GDP growth accelerated from 5.3 percent in FY22/23 to an estimated 6 percent in FY23/24. The expansion was driven by oil-related construction activity and the growth of the mining and quarrying sector, which benefited from sustained increases in gold prices and an improved domestic environment for artisanal mining. While the real estate sector continued to perform well, overall economic activity slowed during the second and third quarter, and agricultural output remained volatile due to rising input costs combined with droughts in some parts of the country and heavy rains in others. The low inflation and recovery of real income and employment bolstered consumption, while private investment remained resilient despite tight domestic and global financial conditions. As a result, exports and manufacturing orders increased between August 2023 and May 2024. Per capita income reached about US$980 in FY22/23, and continued growth will push Uganda closer to the lower-middle-income threshold.

The external current-account balance is estimated to have remained broadly unchanged, but foreign-exchange reserves have deteriorated, while rising portfolio outflows have increased depreciation pressure on the Ugandan shilling (USh). Rising imports almost fully offset a surge in exports driven by the strong performance of gold and coffee, as well as oil-related foreign direct investment inflows. As public-sector loan disbursements declined, foreign-exchange reserves financed a larger share of debt service. By February 2024, reserves had fallen to 3.3 months of import coverage. In Uganda's small and sensitive foreign-exchange market, the reversal of portfolio flows combined with deteriorating investor sentiments put pressure on the Ugandan shilling, prompting the central bank to stabilize the exchange rate by decreasing shilling liquidity. Nevertheless, the shilling depreciated at an annualized rate of 9 percent in real terms between October 2023 and January 2024, which should bolster export competitiveness.

The central bank tightened its monetary policy as depreciation pressures worsened the inflation outlook during the second half of FY23/24. Food-price inflation turned negative in the second half of the year amid improving supply conditions, but rising global oil prices pushed the annual inflation rate for energy, fuel, and utilities to an average of 7.7 percent between January and April 2024. Overall inflation has been rising, albeit modestly, since December 2023. Deprecation accelerated in February, and inflation threatened to exceed the target of 5 percent, prompting the central bank to raise the main policy rate by a total of 75 basis points between March and April 2024. Higher policy interest rates, coupled with the public sector's substantial gross financing needs, pushed up real lending rates.

Rising real interest rates have weighed on the modest recovery of credit to the private sector. After falling to 69 percent during the first quarter of FY23/24, the share of net credit to the government in total credit rebounded to over 70 percent during the third quarter. Increased credit to the government crowded out credit to the private sector, and the latter's growth rate slowed from 10.5 percent year-on-year during the first three quarters of FY22/23 to an average of 7.9 percent in the same period of FY23/24. Personal loans and building, mortgage, construction, and real estate loans continued to drive commercial-bank lending, while credit for manufacturing and trade slowed significantly.

Revenue shortfalls and unplanned spending through supplementary budgets threaten the fiscal consolidation. Government revenue fell about 12 percent below target between August 2023 and April 2024, as revenue from value-added tax and other taxes on international trade failed to meet expectations, while weaknesses in tax administration eroded domestic tax collection. The revenue shortfall was partially offset by underspending due to investment cuts and delays in implementing development projects. The fiscal deficit fell to 4.3 percent of GDP during the first half of FY23/24, slightly below the target of 4.6 percent set forth in the Charter for Fiscal Responsibility (CFR). While revenue performance remained weak into the second half of the fiscal year, the USh 4.6 trillion supplementary budget passed during the first three quarters exceeded the approved budget by 9 percent and will push the overall fiscal deficit for FY23/24 above 4.5 percent of GDP, exceeding the planned 3.5 percent. Additional spending may also increase the debt stock well beyond the estimated 49.9 percent of GDP recorded in December 2023.

Low levels of social spending undermine service delivery. The education, health, and social protection sectors accounted for 14 percent of total government spending in the first half of FY23/24, with 5.5 percent allocated to health and 8.2 percent to education. Budget allocations were below even the very modest levels observed over the past decade, as the government prioritized closing infrastructure gaps—especially in the energy and transport sectors—over investing in human capital. Education spending averaged 11.9 percent of total spending between FY15/16 and FY21/22, below the benchmark of at least 15 percent set forth in the Education 2030 Framework for Action. Education spending amounted to 2.1 percent of GDP, far below the benchmark of 4 percent. Meanwhile, health spending accounted for 7.2 percent of total spending and just 1.3 percent of GDP. These levels of social spending are insufficient to meet the needs of Uganda's rapidly growing population, and budget adjustments will be necessary to foster sustainable and inclusive development.

The medium-term outlook remains broadly positive, though uncertain. Real GDP is projected to grow by 6.2 percent in FY24/25 and accelerate to over 7 percent in the medium term, due primarily to investment in the oil and gas sector. The forecast has been revised downward slightly since the December 2023 edition of the Uganda Economic Update, as heightened geopolitical tensions have put upward pressure on prices, prompting much tighter monetary policies than were envisaged six months ago. Further, the suspension of the fiscal consolidation agenda, as the fiscal deficit rises to over 5 percent of GDP and debt to over 50 percent of GDP, has raised uncertainties and likely to squeeze private sector credit, with negative effects on investments. However, continued investment in the oil sector, robust coffee and gold exports are expected to boost economic activity in the coming year. Meanwhile, the full implementation of the Parish Development Model (PDM) and other public investment programs, along with improvements in infrastructure and a growing energy supply, could further bolster aggregate demand. Over the medium term, oil exports will transform Uganda's trade profile, while the government's efforts to promote tourism and agro-industrialization should help foster export diversification.

With the fiscal consolidation agenda suspended and fiscal institutions weakening, fiscal vulnerabilities may rise as oil revenues start to flow. The fiscal deficit is projected to reach above 5.0 percent of GDP during FY24/25, before declining slightly to 4.3 percent in FY25/26, well above the targets of 4.2 percent and 3 percent, respectively, set forth in the CFR. Given the slow revenue reform effort, non-oil revenue could rise by 0.2 and 0.4 percentage points of GDP in FY24/25 and FY25/26, respectively, with the latter year expected to be boosted by an addition 1.4 percentage points of GDP on account of oil related revenues. This is against weakening fiscal institutions, with government failing to adhere to the self-imposed fiscal rule within the CFR and gaps in the framework for managing oil revenues. Public debt, projected to reach 51 percent of GDP by FY25/26, will keep debt-service costs high and exacerbate the risk of crowding out lending to the private sector.

However, numerous risks threaten Uganda's growth trajectory. A further deterioration of global economic conditions due to rising geopolitical tensions or an escalation of the conflict in the Middle East would reduce Uganda's exports while distorting import supply chains. Vulnerabilities in China and Europe pose particularly serious risks, as these are the main sources of investment in the country's oil sector. Mounting inflationary pressures, more expansionary fiscal policies, and prolonged monetary tightening could constrain economic activity and reduce household incomes. Uganda's economy is also exposed to regional insecurity, delays in the implementation of major infrastructure projects, volatile portfolio and foreign direct investment inflows, and the possibility of diminished donor financing as the 2026 election approaches. The materialization of these shocks could erode the fiscal balances, jeopardize the planned fiscal consolidation, and potentially raise Uganda's risk of debt distress from its current "moderate" level.

Going forward, stronger fiscal rules will be necessary to mitigate the impact of shocks and manage Uganda's transition to oil-exporter status, and to increase social spending and greater expenditure efficiency to ensure equitable and sustainable growth. Along with specific measures to enhance the management of oil revenues, an improved CFR will be critical to maintain fiscal discipline as oil exports commence. New regulations will also be necessary to curb lending to the government via bank advances or the nonpayment of matured securities and supplementary spending, which reduce budgetary flexibility and narrow the fiscal space to respond to shocks. Finally, in addition to reverting to fiscal consolidation, the government will need to adjust the allocation of expenditures to build the human capital necessary for structural transformation by investing in education, health, and social protection, which are also critical for inclusive growth and poverty reduction.

Linking Public Spending on Health to Human Capital Development

With a young and growing population, Uganda has a one-time opportunity to capture a demographic dividend, but success is not guaranteed. As the economy grows and fertility and mortality rates decline, countries pass through a period when the size of the working-age population (ages 15–64) exceeds the dependent population of children and the elderly. During this demographic transition, a country can leverage its changing age structure to accelerate economic growth, but only if workers are able to realize their full productive potential. Uganda is a "pre-dividend" country, which means that today's children will be the working-age population during the country's demographic transition. To ensure that Uganda reaps a demographic dividend, the government must increase investment in human capital, with a focus on children and young people.

Due to persistent underspending on education, health, and social protection, the productivity of Uganda's next generation of workers is projected to be among the lowest worldwide. According to the 2020 Human Capital Index (HCI), a Ugandan child born in 2020 was expected to reach just 38 percent of what her lifetime productivity would have been had she enjoyed complete education and full health. This projection was based on health indicators such as the child survival rate, the stunting rate, and the adult survival rate, as well as education indicators such as average years of schooling and average learning levels. Uganda had the highest stunting rate among children under age five of any country in the HCI, as well as one of the lowest adult survival rates (74). In addition to their immense human cost, weak health indicators are a major contributor to low productivity.

Public health spending is low by the standards of comparator countries. Households and external development partners finance a combined 84 percent of total current health spending. About 84 percent of all external funding for the health sector is off budget, which reduces the flexibility of resource allocation and limits the ability of policymakers to re-prioritize funding to address critical needs. Executing a larger share of health expenditures through the budget could also help improve public financial management systems.

The share of the government's own resources that is devoted to health spending has declined in recent years, indicating that policymakers have not prioritized the health sector. General government health expenditures from domestic sources fell from 6.5 percent of total public spending in FY14/15 to 3.9 percent in FY20/21. Over the past decade, domestic health expenditures have averaged 1.1 percent of GDP and have never exceeded 2 percent. At this level of public spending, Uganda is unlikely to achieve the health-related Sustainable Development Goals.

Indicators of service availability and readiness at health facilities are still very low. At the district level, the provision of quality healthcare is hindered by inadequate funding and staffing, an erratic supply of medicines and medical supplies, and inadequate managerial capacity at health facilities. These gaps are symptomatic of a poorly financed or managed health system.

The share of spending on wages and salaries has grown over the years but remains consistent with spending patterns in eastern Africa. However, the number of skilled healthcare providers working in the public sector is below the global norm of 23 per 10,000 people. The limited availability of essential health workers in Uganda is exacerbated by high levels of absenteeism, which incur direct losses estimated at USh 292 billion (US$78.5 million) each year.

Annual public spending on medicines and medical supplies has risen significantly in recent years but remains low at US$3.2 per capita. This level of spending is far below the standard of US$13-25 per capita among peer countries. Inadequate spending, weak accountability, and widespread theft all contribute to shortages of medicines and supplies at health facilities.

Despite its low level of health spending per capita, Uganda utilizes its resources more efficiently than some of its peer countries. Uganda's maternal health outcomes, for example, are better than those of most comparators. However, there are substantial disparities in maternal mortality ratios within the country. These disparities are due in part to differences in funding levels across sub-regions and in part to the efficiency with which sub-regional health systems utilize the available inputs.

Several major health-sector policies and programs have significantly benefitted the poor. The share of households facing catastrophic health expenditures or impoverishment due to health expenditures has declined. However, about 1.1 million households (4.9 million people) still experience catastrophic levels of health spending, and health spending pushes about 233,328 households (1.1 million people) into poverty. These risks are especially acute among rural households.

A combination of increased health spending and efficiency gains will be necessary to build Uganda's human capital and reap a demographic dividend. The government must assume a much stronger role in addressing the huge gaps in healthcare quality and service availability in public health facilities. This edition of the Uganda Economic Update recommends that policymakers focus on six key areas:

(i) Strengthening the health-financing system through increased resource mobilization, risk-pooling, strategic purchasing of health services, and improved public investment management and public financial management. Accomplishing this objective will require increasing advocacy and dialogue on the inadequacy of government funding to the health sector, increasing government spending on health, and developing sector-specific fiscal-sustainability plans to mitigate dependency on uncertain external financing. The authorities should also bring donor expenditures onto the budget and operationalize joint compacts on the pooling of donor funds and aid effectiveness between the government and its development partners. To strengthen strategic purchasing in the health sector, the authorities should scale up the implementation of the results-based financing mechanism and make it the centerpiece of the proposed national health insurance scheme. Stronger health-financing systems will also require improvements in public financial management.

(ii) Increasing investments in primary healthcare, health promotion, and disease prevention while cautiously scaling up investments in specialized healthcare. Improving the primary healthcare system will accelerate progress toward universal health coverage. Prioritizing spending at the primary health care level, health promotion and disease prevention will help mitigate the elevated risks and costs associated with curative care while decongesting referral facilities. Enhancing the capabilities of existing health facilities will require increasing the availability of health workers, medicines, electricity, and water, sanitation, and hygiene amenities.

(iii) Updating and expanding the use of performance agreements with private facilities and improving the investment climate in the health sector. The government should update its performance agreements with private nonprofit facilities and establish formal performance agreements with private for-profit facilities, especially in areas that lack public facilities.

(iv) Improving the availability, occupational mix, distributional equity, and productivity of the health workforce. This will require streamlining recruitment and deployment across regions, and additional support should be provided to local governments with limited capacity to recruit and deploy staff. It will also require the accreditation of health workers, training institutions, and health facilities, as well as the provision of regular in-service training using competency-based training approaches and mentorship. To raise productivity, the authorities should introduce performance-based contracts for health workers at all levels and increase funding for the recruitment of health staff.

(v) Reducing the incidence of catastrophic health spending and impoverishing health spending. Increasing government funding for essential medicines and strengthening the management of supplies can help reduce out-of-pocket costs. The authorities should upgrade the information-management systems that underpin the procurement and distribution of medicines, as well as the handling of patient information. The National Medical Stores should enhance its online requisition system, provide sufficient time for local authorities to verify deliveries, and link its logistics-management system with the Integrated Financial Management and Information System (IFMIS) at the Ministry of Finance.

(vi) Enhancing the quality of care and promoting client engagement in health-service design, planning, delivery, and oversight. The authorities should scale up quality-improvement interventions across service-delivery platforms based in health facilities and schools. In addition, the client-centered grievance-redress systems should be strengthened, and the authorities should conduct regular client-satisfaction surveys and patient-reported-outcomes studies.

PART | 1 |
THE STATE OF THE ECONOMY

1. Recent Economic Developments

1.1 The global recovery continues, but debt and inflation cloud the regional outlook.

1. Global economic conditions improved in the first half of 2024, which was marked by incipient monetary easing and an increase in trade, but global growth is projected to reach just 2.6 percent for the full year, stabilizing after the declining trend of the past three years[1]**.** While economic activity began to pick up during the first quarter of 2024, the recovery varied significantly across regions, with the United States outperforming the euro area while growth in China continued to falter. Inflation is moderating in emerging markets and developing economies (EMDEs), and economic activity is stabilizing despite the lingering effects of shocks and elevated debt burdens. Global financial conditions began to ease, but real policy interest rates remain elevated, and persistently tight credit markets could dampen private investment and limit access to foreign exchange. Rising prices for oil, coffee, and other commodities could slow disinflation but will benefit commodity exporters.[2] The recent downturn in global trade growth may have bottomed out in March 2024, as trade in goods rebounded despite disruptions in the Suez and Panama canals, while trade in services expanded. Global economic growth is currently expected to rise from 2.6 percent in 2024 to 2.7 percent in 2025.[3]

2. Aggregate economic growth in Sub-Saharan Africa (SSA) is expected to accelerate from 2.6 percent in 2023 to 3.4 percent in 2024.[4] The growth of private consumption is expected to drive the recovery as declining inflation boosts real household income. Meanwhile, interest rates are likely to remain elevated, which will weigh on investment, and fiscal consolidation will constrain the growth of government consumption. Economic activity is increasing across the region. At least three of SSA's 10 largest economies—Côte d'Ivoire, the Democratic Republic of the Congo, and Kenya—are posting growth rates that exceed their long-term average, and growth is expected to accelerate in at least 70 percent of SSA economies during 2024. However, sustained conflicts, particularly in Sudan, as well as new outbreaks of violence in Chad and Niger, are undermining regional stability. While an anticipated decline in interest rates in major advanced economies may stimulate investment growth in 2025, overall risks to the outlook are tilted to the downside. Uneven economic recoveries, the possible resurgence of inflation and consequent monetary tightening, mounting regional tensions and ongoing conflicts, and the increased frequency and intensity of adverse weather events due to climate change could further slow growth across SSA, exacerbating poverty and leading to debt distress in some countries.

3. While regional inflation is projected to fall from 7.1 percent in 2023 to 5.1 percent in 2024 and 5 percent in 2025–26, it remains high compared to pre-pandemic levels. Inflation remains in double digits in 13 SSA countries, including Ethiopia, Nigeria, Malawi, Sierra Leone, and Zimbabwe. In some cases, a combination of monetary tightening and fiscal consolidation may be necessary to bring inflation under control, even at the expense of economic growth. Moreover, stubbornly high food-price inflation, due in part to frequent droughts and floods in eastern and southern Africa, is exacerbating food insecurity in Ethiopia, Kenya, Mozambique, Somalia, and Zambia. In March 2024, up to 105 million people in the region faced severe food insecurity.[5]

4. Across the region, high debt levels and liquidity challenges limit the fiscal space to response to shocks. While SSA's aggregate public debt stock is expected to decline from 61 percent of GDP in 2023 to 57 percent in 2024, many countries remain at high risk of debt distress. The April 2024 edition of the World Bank Africa's Pulse reported that more than half of SSA countries grapple with external liquidity problems, face unsustainable debt burdens, or are actively seeking to restructure or reprofile their balance sheets. With several governments in the region highly exposed to commercial financing and non-Paris Club creditors, public debt service continued to rise, and an increase in external borrowing costs has heightened refinancing risk.[6]

1. World Bank (2024b). Global Economic Prospects, June 2024. Washington, DC: World Bank.
2. Brent crude oil rose to US$87 per barrel while coffee prices reached a three-decade high in March 2024.
3. World Bank (2024a). Global Economic Prospects, January 2024. Washington, DC: World Bank.
4. World Bank (2024). Africa's Pulse. April 2024. Washington DC. World Bank, DC.
5. Ibid.
6. For example, while Kenya's sovereign spreads have declined over the past year, the yield on its recently issued Eurobond was 10.375 percent, compared to 6.875 percent on its the maturing 2024 Eurobond.

1.2 The lingering effects of shocks threaten Uganda's economic resilience.

5. **During the first half of FY23/24, Uganda's economy maintained strong growth momentum despite successive domestic and external shocks.** Despite the uneven performance of the global economy, fluctuations in commodity prices, rising geopolitical tensions, regional conflicts, and domestic developments that likely affected investor sentiment, GDP grew at an average rate of 5.4 percent during the period,[7] albeit down from 6.8 percent during the first half of FY22/23.[8] Exports rose, the terms of trade improved, the tourism sector recovered, and activity in the oil sector increased. Together, these trends offset the adverse effect of slowing private-sector credit growth through the first half of the financial year. However, the central bank tightened its policy stance at the end of the third quarter of the financial year, which further constrained the domestic credit market. Weather conditions remained moderate, while the ongoing construction of oil infrastructure attracted robust foreign direct investment (FDI) inflows, which bolstered domestic investment and while consumption benefitted from the low inflation environment.

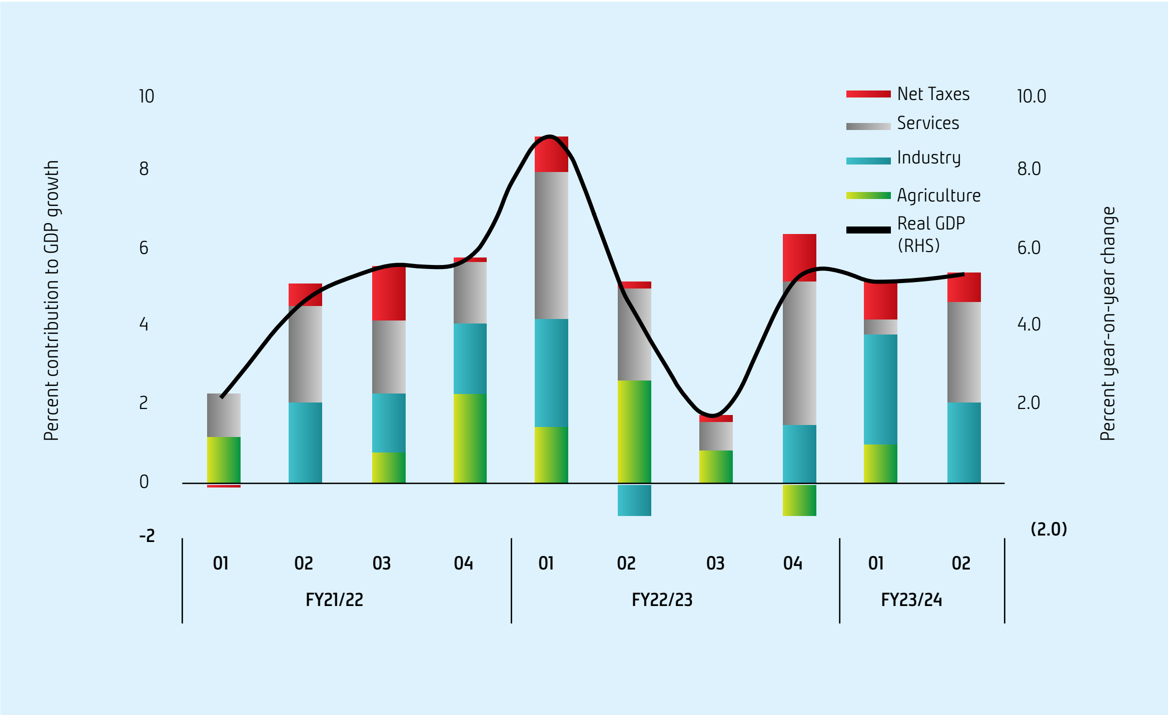
6. **The industrial sector led the overall economic expansion, driven by a sustained increase in oil-related construction activity and improvements in the domestic mining environment.** Progress in the preparation of the Tilenga and Kingfisher oil-drilling project areas and their supportive infrastructure, including the construction of 700km of roads within or linking to the oil region, and Kabaale International Airport, continues to boost construction and related activities. The construction sector grew by 9.4 percent during the first half of FY23/24, more than doubling the growth rate observed both in the previous half year and the corresponding period of FY22/23. Mining and quarrying contribute just 2 percent to GDP, but the subsector grew by 142 percent as gold exports quadrupled. A sustained increase in gold prices,[9] improved production methods by artisanal miners, and an expanding commercial mining sector all contributed to the increase in gold exports. Manufacturing, which accounts for about 54 percent of industrial output, continued to suffer from the aftereffects of supply-chain disruptions, the instability of the Ugandan shilling (Ush), and credit constraints. As a result, the recovery observed during the first quarter of the fiscal year tapered off in the second quarter.

7. **Credit constraints and fiscal consolidation slowed the growth of the services sector, while variable weather conditions increased the volatility of agricultural output during the first half of FY23/24.** The continued normalization of international trade contributed to an ongoing expansion of trade and services, both within the region and globally, but its growth slowed to 3.5 percent during the second half of the year. The strong performance of information and communications services, accommodation and food services, education services, and real estate was offset by reduced spending on public administration, human health and social work, and arts, recreation, and entertainment. Atypical weather patterns continue to disrupt agricultural production, especially for food crops, which account for more than half of the sector. A strong recovery during the first quarter faltered in the second quarter as the output of the food-crop, fishery, and forestry subsectors contracted.

GDP grew at an average rate of 5.4 percent during the period, albeit down from 6.8 percent during the first half of FY22/23.

7. Uganda Bureau of Statistics, 2024
8. In October 2023, the U.S. government issued a business advisory cautioning private investors against financial and reputational risks stemming from corruption and human rights restrictions in Uganda and removed Uganda from the African Growth and Opportunity Act (AGOA).
9. World Bank. Commodity Price Data (Pink Sheet), April 2024. Washington DC.

Figure 1: Growth stabilized as industry compensated for the weaker performance of services and agriculture.



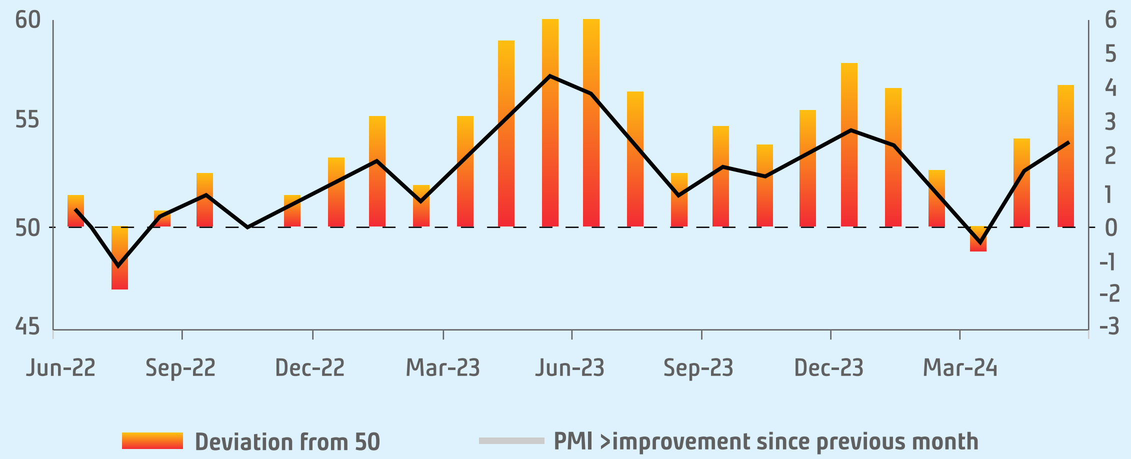
Source: UBOS and World Bank Staff Calculations

8. High-frequency indicators suggest that economic activity remained strong during the second half of FY23/24 despite the impact of external shocks. The Stanbic Bank Purchasing Managers Index (PMI), a proxy for business sentiment, remained above the 50-point mark until February 2024 as the Ugandan private sector registered a 16-month expansion. The construction, industrial, services, and wholesale and retail sectors all grew substantially over the period. While the index score ticked down to 49.3 in March 2024, new orders and employment rebounded in April and May even as input costs rose. Higher prices for fuel, materials, and utilities drove the increase in input costs, which prompted companies to raise output prices. The Composite Index of Economic Activity (CIEA) grew at a rate of 6.5 percent year-on-year in the second half of 2023 and continued to rise, albeit at a slower rate, during the first three months of 2024 before accelerating again toward the end of the fiscal year. The depreciation of the Ugandan shilling and subsequent monetary tightening between March and April, coupled with demonstrations by traders against what they deemed to be an unfair tax regime, rattled business sentiment. Nevertheless, economic activity continued to benefit from oil-related activity during the second half of the year and exceeded the levels registered during the corresponding period of FY22/23. As a result, GDP growth is expected to accelerate from 5.3 percent in FY22/23 to about 6 percent in FY23/24. While rapid population growth has partially offset rising output, per capita income reached US$980 in FY22/23, bringing Uganda closer to the lower-middle-income threshold.[10]

GDP growth is expected to accelerate from 5.2 % in FY22/23 to about 6% in FY23/24.

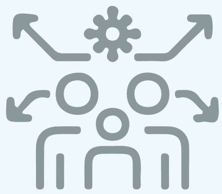
10. According to the World Bank's country classification by income level for 9FY23/24, the per capita gross national income thresholds were: <US$1,135 are low income; US$1,136- US$4,465 are lower middle income; US$4,466- US$13,845 are upper middle income; and US$13,846> are high income, using Atlas Method applied on FY21/22 data. As is the standard practice, these thresholds will be revised in line with global developments. The thresholds and new categories for FY24/25 will be effective and published on July 1, 2024.

Figure 2: The PMI remained at or above the 50-point mark in all but two of the last 24 months.



Source: Stanbic Bank Uganda

9. Households reported lower employment rates, due in part to seasonal factors, but access to essential commodities and services improved. According to the Ugandan Bureau of Statistics (UBOS) phone survey,[11] reported employment[12]dropped from a peak of 82 percent in October/November 2023 to 75 percent in January/February 2024, with seasonal changes in employment and illness being the two most frequently cited causes. Nonseasonal economic factors such as the closure of businesses, layoffs, and the inability to buy inputs accounted for only 9 percent of all reported unemployment. While access to essential goods such as sugar, beans, sweet potatoes, cooking oil, and maize flour improved as supply recovered, a large gap between the richest and poorest households persists. More than 40 percent of households in the bottom consumption quintile reported being unable to access any bread, compared to just 5 percent of households in the top quintile. The survey also found that while those who needed health services typically received them, two-thirds paid out of pocket (OOP) for health services, with the richest households spending the highest amounts. On average, households in the top quintile spent USh 159,108 (US$42) per capita per year on health services, more than twice the amount spent by households in the poorest quintile.



While those who needed health services typically received them, two-thirds paid out of pocket (OOP) for health services"

11. In collaboration with the World Bank, UBOS implements the Uganda High Frequency Phone Survey (UHFPS) to monitor economic sentiment and the impact of shocks such as the COVID-19 pandemic, Russia's invasion of Ukraine, disease outbreaks, and extreme weather events. Seventeen survey rounds were completed between June 2020 and February 2024.
12. The survey asks respondents whether they worked during seven days preceding the interview.Bank of Uganda is operating an inflation targeting regime, hence bases its monetary policy action not just on the realized inflation but on the foreseen forecasts.

Table 1: Quarterly real GDP growth by subsector (%)

	FY21/22	FY22/23				FY23/24	
	Share of GDP	Q1	Q2	Q3	Q4	Q1	Q2
AGRICULTURE	23.8	5.1	12.5	4.6	-2.5	3.7	1.6
Cash crops	2.5	0.8	-5.3	6.6	-3.7	-4.1	7.5
Food crops	11.6	8.4	19.8	-4.9	-9.6	1.9	-2.9
Livestock	4.0	8.9	9.0	9.7	8.5	8.4	8.9
Agriculture support services	0.0	4.1	5.1	0.1	-1.2	0.3	2.6
Forestry	3.6	3.3	3.3	2.5	3.4	9.7	8.3
Fishing	2.0	-35.5	26.1	32.0	12.7	25.8	-5.7
INDUSTRY	26.0	6.8	11.7	-3.0	0.1	5.9	11.9
Mining and quarrying	1.9	75.9	-55.4	-28.1	56.8	141.6	165.4
Manufacturing	15.6	15.4	1.2	-1.4	-1.5	5.2	-1.0
Electricity	1.1	0.9	1.3	2.6	6.4	11.7	10.8
Water	2.1	5.0	4.1	3.9	3.8	4.1	4.0
Construction	5.3	0.4	0.6	9.8	8.7	1.5	3.3
SERVICES	42.4	9.4	5.5	1.6	8.5	1.0	6.0
Trade and repairs	9.2	9.0	5.6	0.6	7.6	7.4	5.5
Transportation and storage	3.6	-6.1	-1.8	-10.3	-4.8	0.6	0.4
Accommodation and food service	2.2	-0.6	-1.6	14.2	37.9	29.5	4.9
Information and communication	1.5	4.2	4.0	12.0	20.8	34.3	27.0
Financial and insurance	2.8	1.8	14.3	-19.2	7.5	3.4	1.2
Real estate activities	6.1	9.5	7.8	6.3	6.2	3.9	3.9
Professional services	2.3	48.6	17.9	30.5	15.5	-45.1	39.7
Administrative and support service	2.0	18.0	14.7	20.4	18.0	2.3	1.2
Public administration	2.8	8.4	5.7	-9.7	-1.0	-21.3	0.4
Education	3.6	13.1	-1.0	-8.8	11.2	11.4	9.3
Human health and social work	3.3	11.9	1.3	4.2	0.2	-9.6	-6.7
Arts, entertainment, and recreation	0.1	-33.8	-4.9	30.6	41.2	-23.3	-14.0
Other service activities	2.0	4.2	3.7	2.4	-0.5	-0.9	-0.5
Activities of households	0.7	2.7	2.7	2.7	2.8	2.8	2.8
Taxes on products	7.9	15.3	2.5	2.0	9.7	15.9	10.6
GDP at market prices	4.6	9.0	4.5	1.8	5.4	5.3	5.5

Source: UBOS and World Bank Staff Calculations

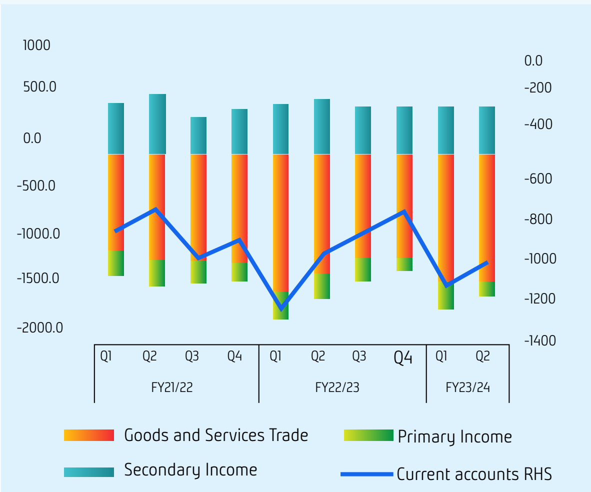
1.3 Financing imbalances contributed to currency depreciation despite a stable current account

10. The current-account deficit narrowed slightly from 8.2 percent of GDP in FY22/23 to 8.1 percent in FY23/24 as a surge in imports offset the recovery of goods exports and tourism. The total value of exports and imports rose from 40 percent of GDP during the second half of FY22/23 to 46.6 percent during the first half of FY23/24. Merchandise trade represents over 90 percent of the current account.

11. Imports rose from 24.7 percent of GDP in the second half of FY22/23 to 28.2 percent in the first half of FY23/24, reflecting increased domestic demand, oil-related investments, and the normalization of global supply chains. The oil-import bill for the first half of the fiscal year was US$898 million, up 5.3 percent year-on-year (y/y). Other private-sector imports (excluding nonmonetary gold) also increased to support private investment, particularly in the oil and gas sector. This surge in imports offset a sizable increase in exports of goods and services, which rose by 2 percentage points of GDP to 18.4 percent as gold exports continued to rebound and coffee exports increased, supported by elevated global prices. Despite the negative impact of domestic terrorist threats, travel and tourism receipts rose to US$605 million in the first half of FY23/24, a 30.5 percent y/y increase. Meanwhile, other exports (excluding coffee and gold) grew by 18 percent y/y to US$2.9 billion. Remittances reached US$711.8 million during the first half of FY23/24, down 4 percent y/y, but remained a key component of external finance.

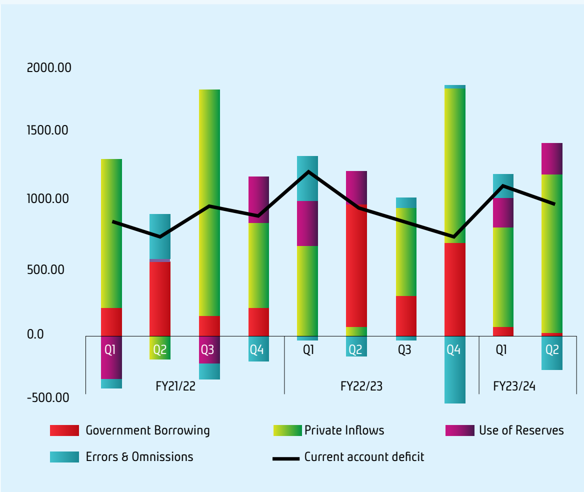
12. External financing conditions remain challenging due to high borrowing costs on international capital markets. The current-account deficit was financed primarily by FDI, followed by public-sector borrowing, which was largely on concessional terms. FDI inflows remained stable at US$1.48 billion in the first half of FY23/24, still 0.7 percent higher than US$1.48 billion received in the first half of FY22/23. International companies grappled with a range of shocks, but equity investments in enterprises still accounted for the bulk of this increase. Other investment inflows, although lower than FDI, rose from US$207 million to US$309 million over the period. The decision by the Financial Action Taskforce (FATF) to remove Uganda from the Grey List in February 2024 helped ameliorate investor sentiment, which could boost future capital inflows.

Figure 3. Rising imports have offset strong export growth, expanding the current-account balance before it stabilized.



Source: Bank of Uganda

Figure 4. FDI, and other private inflows continue to finance the current-account deficit.



Source: Bank of Uganda

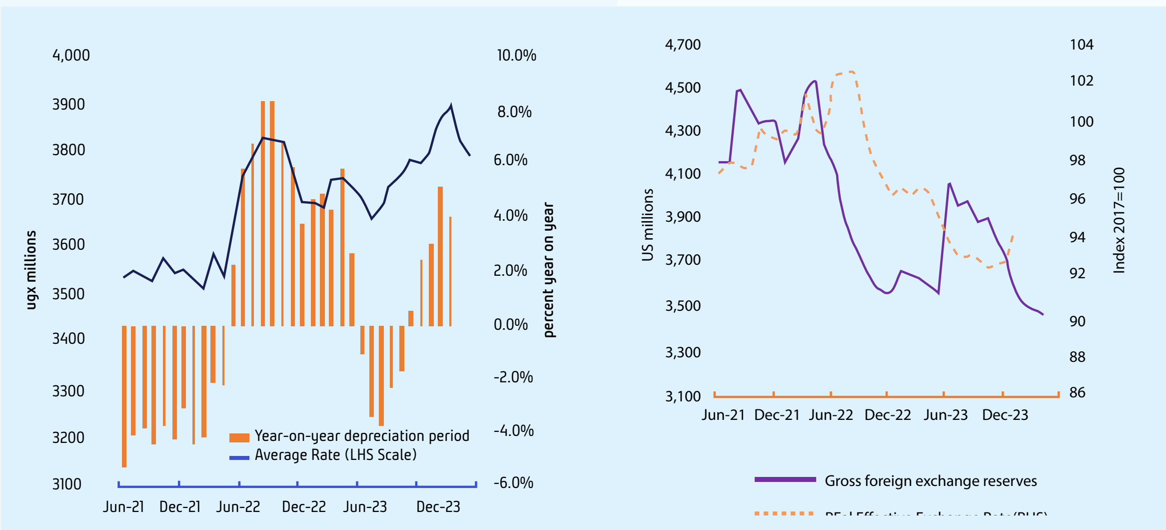
13. Portfolio-investment outflows narrowed, but imports and debt-service payments more than offset a decline in disbursements to the public sector, putting pressure on foreign reserves. Portfolio-investment outflows fell to US$72.8 million in the first half of FY23/24, down 73 percent relative to the first half of FY22/23. These outflows included sustained disinvestment from government securities, continuing a trend that began in the final quarter of FY21/22. Net government borrowing dropped to US$79.6 million as lingering project-execution challenges and the government's failure to access planned budget support amid tightening credit markets reduced external disbursements to the government. The central bank's foreign-exchange purchases were insufficient to cover elevated external debt-service payments in a context of lower income. As a result, nominal dollar-denominated reserves fell steadily through the first seven months of FY23/24, from US$4.1 billion at end-June 2023 to US$3.5 billion at end-February 2024, eroding the central bank's capacity to respond to shocks. At 3.3 months of imports, foreign reserves fell below the target of 4 months agreed upon under the IMF Extended Credit Facility (ECF), as well as the East African Community target of 4.5 months.

14. Despite intense pressure in the third quarter, y/y depreciation was modest in nominal terms, and the real value of the shilling remains above the level of three years ago, weakening export competitiveness. Uganda's money markets are sensitive to portfolio flows and to currency holdings and deposits by non-residents despite their relatively small share in the overall balance of payments. Foreign-exchange-denominated portfolio-investment outflows, a decline in nonresident currency holdings and deposits, and broadly negative sentiment contributed to a 1.9 percent nominal depreciation during the first half of FY23/24. Between October 2023 and January 2024, the shilling depreciated at an annualized rate of 9 percent in real terms. Portfolio outflows continued into the second half of the year, and the shilling depreciated to a nadir of USh 3,944/US$ in mid-February before appreciating to USh 3,885/US$ at end-March 2024. The pace of depreciation slowed between April and May 2024 amid tighter monetary policies, weaker demand for foreign exchange, and improving sentiment. The conclusion of the IMF's fourth review of the ECF program was followed by a US$120 million disbursement, and Uganda was removed from the FATF Grey List in February 2024. In real terms, however, the shilling's value remains at a three-year peak.

Figure 5. The shilling's nominal depreciation had a limited impact on the real exchange rate, but reserves declined

a. Changes in nominal value

b. Trends of nominal foreign-exchange reserves (LHS) and the real exchange rate (RHS)



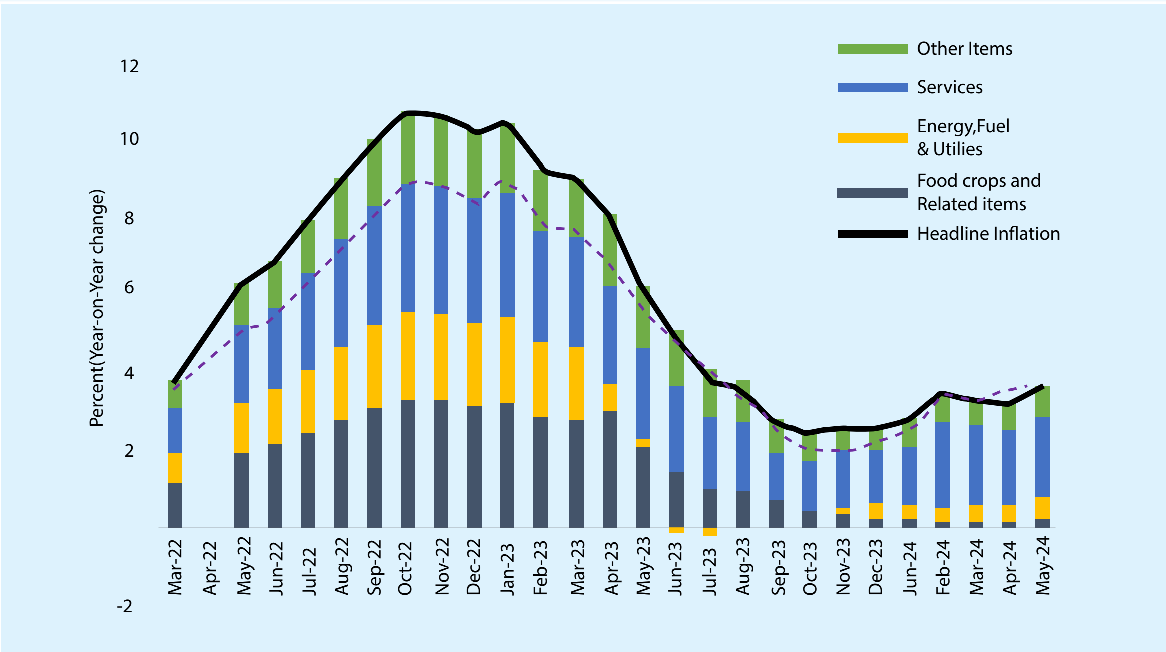
Source: Bank of Uganda and World Bank Staff Calculations

1.4 The central bank tightened monetary policy to curb resurgent inflationary pressures.

15. Inflation has gradually accelerated since October 2023, but the headline rate remains below the central bank's target of 5 percent. Tracking trends in international crude oil prices, the annual inflation rate for energy, fuel, and utilities fell to an average rate of 1.9 percent during the first quarter of FY23/24, then started to increase in October 2023 and averaged 7.7 percent in the third quarter, boosted by the depreciating shilling. Upward pressure on energy prices was partially offset by declining food prices as supply conditions improved—a sharp contrast to the annual increase of 26.7 percent in March 2023. Except for rice, international food-commodity prices declined, while improved weather conditions bolstered the domestic food supply. Overall inflation fell to an average of 2.9 percent during the first half of FY23/24, with positive effects on investment and on consumption among poor households. Inflation accelerated during the second half of FY23/24 and reached 3.3 percent March. Core inflation, which excludes volatile food and energy prices, closely followed trends in overall inflation.

16. Tightener monetary policy has increased borrowing costs. After lowering the policy rate by 50 basis points in August 2023, the central bank kept the rate steady at 9.5 percent for seven consecutive months, encompassing four meetings of the Monetary Policy Committee. However, as the pass-through effect of the shilling's depreciation threatened to push inflation above the 5 percent target, the central bank raised the policy rate by a total of 75 basis points between March and April 2024.[13] Monetary tightening, coupled with the public sector's substantial gross financing needs, has elevated real lending rates on the back of low inflation while shortening loan maturities. As a result, the average real lending rate rose from 13 percent at end-June 2023 to 16 percent in October 2023 before easing to 14.7 percent in February 2024.

Figure 6. Headline inflation remains low, but price pressures increased during the third quarter of FY23/24.



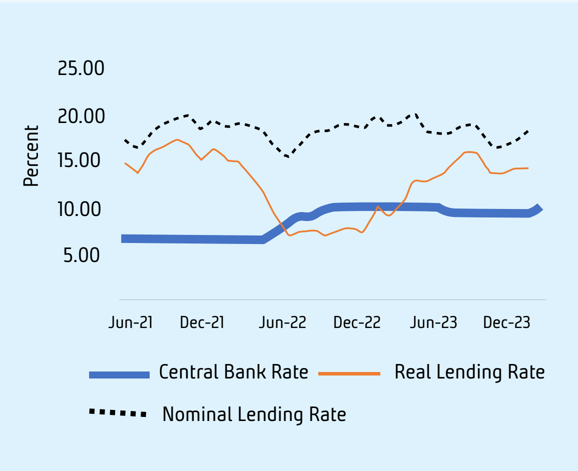
Source: Bank of Uganda

13. Bank of Uganda is operating an inflation targeting regime, hence bases its monetary policy action not just on the realized inflation but on the foreseen forecasts.

17. The cost of credit increased even as nominal interest rates were adjusted downwards, flattening the recovery in credit that had been observed during the first quarter of FY23/24. High interest rates exacerbate other structural constraints on credit access, including the crowding-out effect of deficit financing. After declining marginally to 69 percent during the first quarter of FY23/24, the share of net credit to the government in total net domestic credit returned to over 70 percent of total credit during the third quarter, further constraining lending to the private sector. The growth rate of credit to the private sector slowed to an average of 7.9 percent y/y during the first three quarters of FY23/24, down from 10.5 percent in the same period of FY22/23. Personal loans, which represent the largest share of credit at 23 percent, remained the primary driver of commercial-bank lending during the year. Loans to the manufacturing and trade subsectors experienced the sharpest slowdown and contributed just 0.8 and 0.9 percentage points, respectively, to credit growth during the first three quarters of FY23/24, down from 2 and 1.7 percentage points, respectively, in the first three quarters of FY22/23. Lending to the building, mortgage, construction, and real estate subsectors accelerated late in the second half of FY23/24.

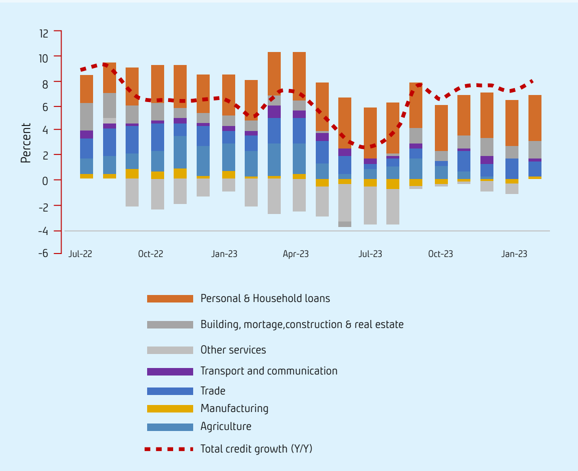
18. Amid tepid activity in the credit market, the banking system remained stable and sound, though its contribution to growth was minimal. The banking system has proven resilient, and bank assets increased by 10 percent between June 2023 and March 2024. At 25.3 percent as of end-December 2023, the ratio of capital to risk-weighted assets remained at more than twice the mandatory level of 10 percent. However, commercial banks' exposure to government debt has gradually increased. Claims on the government by supervised financial institutions grew by 11.5 percent by February 2024, about the same rate recorded between July 2022 and February 2023, as commercial banks increased their holdings of short-term Treasury bills and other government debt. The share of nonperforming loans in total credit declined through the first half of FY23/24 to 4.6 percent. The minimum capital requirement for banks will rise to USh 150 billion (about US$40 million) at end-June 2024, and three banks have been relegated to the status of credit institutions, reducing the number of small, vulnerable banks.[18] However, the financial system's contribution to private-sector-led growth remains limited. As a share of GDP, the stock of private-sector credit fell by a full percentage point of GDP between June 2022 and June 2023 before recovering to an estimated 12.3 percent by February 2024.

Figure 7. The cost of credit increased as the central bank raised interest rates to counter rising inflation.



Source: Bank of Uganda

Figure 8. Credit growth began to recover before flattening out.



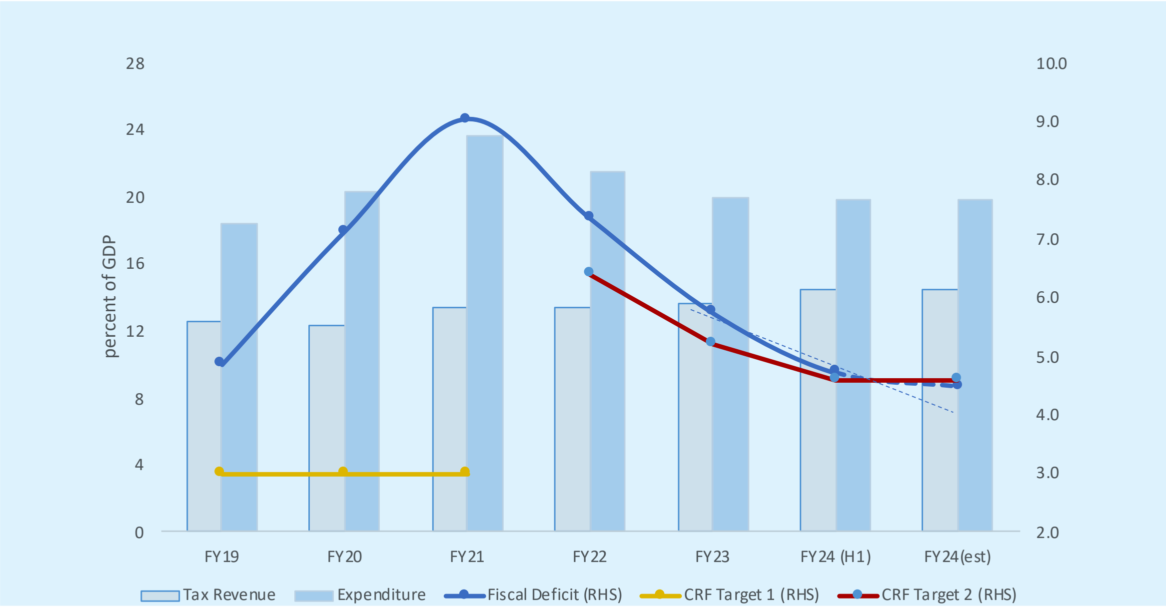
Source: Bank of Uganda and World Bank Staff calculations

14. The central bank announced the minimum capital requirement of USh 150 billion in June 2022, requiring commercial banks to raise their capital by 500 percent from the USh 25 billion at that time. This policy shift aimed to strengthen the banking system capacity to manage shocks and meet the needs of a bigger economy.

1.5 Revenue shortfalls and new spending pressures have undermined the fiscal consolidation.

19. Reduced capital investment has helped narrow the primary fiscal deficit but may constrain future economic growth.[15] During the first half of FY23/24, the overall fiscal deficit including grants equaled 4.3 percent of GDP, down from 5.4 percent during the same period in FY22/23. The under-execution of the capital budget offset a huge shortfall in revenue and grants during the first half of the financial year, narrowing the fiscal deficit to within the target of 4.6 percent of GDP set out in the Charter for Fiscal Responsibility (CFR).[16] While revenue remained weak into the second half of the financial year, the supplementary budget passed at end-April 2024 increased total spending to Ush 4.6 trillion (9 percent above the approved budget), pushing expenditures as much as 2 percentage points of GDP higher than planned. The overall fiscal deficit for FY23/24 is estimated to exceed 4.5 percent of GDP, well above both the planned 3.5 percent and the CFR target.

Figure 9: The fiscal deficit continued to narrow in FY23/24...



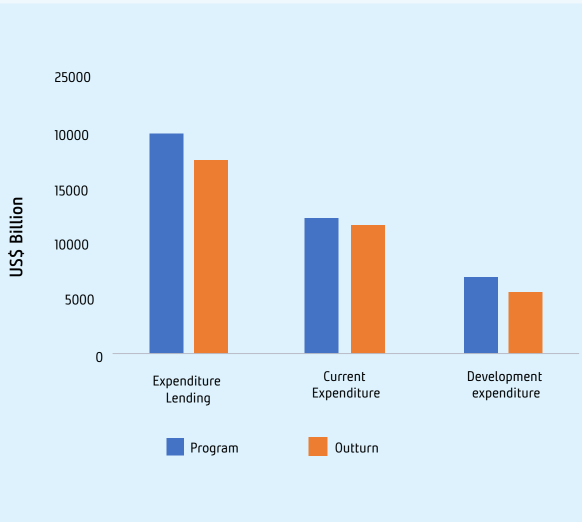
Note:

CFR Target 1 ran between FY16/17 - FY20/21 and was a flat 3.0 percent without interim targets.

CFRTarget 2 covers the period FY21/22-FY24/25 and carried a path to gradually reduce the deficit from 6.4 ercent of GDP to 3.0 percent.

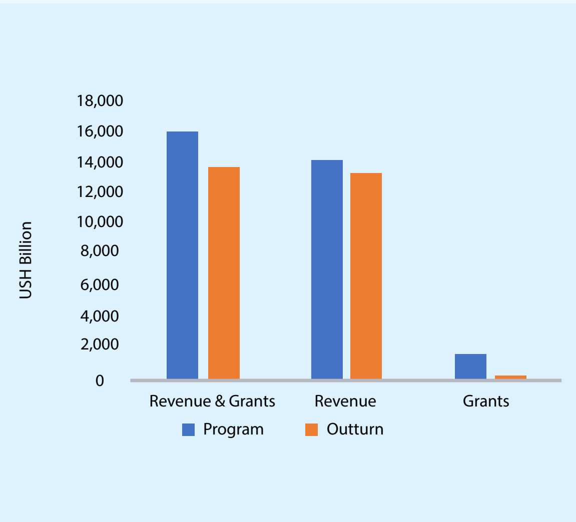
Source: MoFPED and World Bank Staff calculations

Figure 10. ...as the under-execution of capital expenditures... Expenditures during H1 FY23/24



Source: MoFPED

Figure 11. ...compensated for the underperformance of revenues and grants. Revenue and grants during H1 FY23/24



Source: MoFPED

15. The primary deficit is the difference between revenues and expenditures, excluding interest payments.
16. MoFPED (2024), Half Year Macroeconomic & Fiscal Performance Report Financial Year 2023/24. https://mepd.finance.go.ug/reports.html

20. Government revenues are projected to reach 14.0 percent of GDP in FY23/24. Efforts to strengthen tax administration increased tax receipts between the first and second quarters of the financial year, though revenue still fell short of its target by 0.9 percentage points of GDP. Tax collection increased y/y across all tax heads. Revenue from direct domestic taxes experienced the strongest growth, as the deployment of digital instruments such as the Electronic Fiscal Receipting and Invoicing System (EFRIS) increased the efficiency of value-added tax (VAT) collection, the use of Unstructured Supplementary Service Data (USSD) platforms increased tax registration, and mobile-money platforms facilitated payments. International taxes grew at a much slower pace due to declining prices through most of the first half of FY23/24.

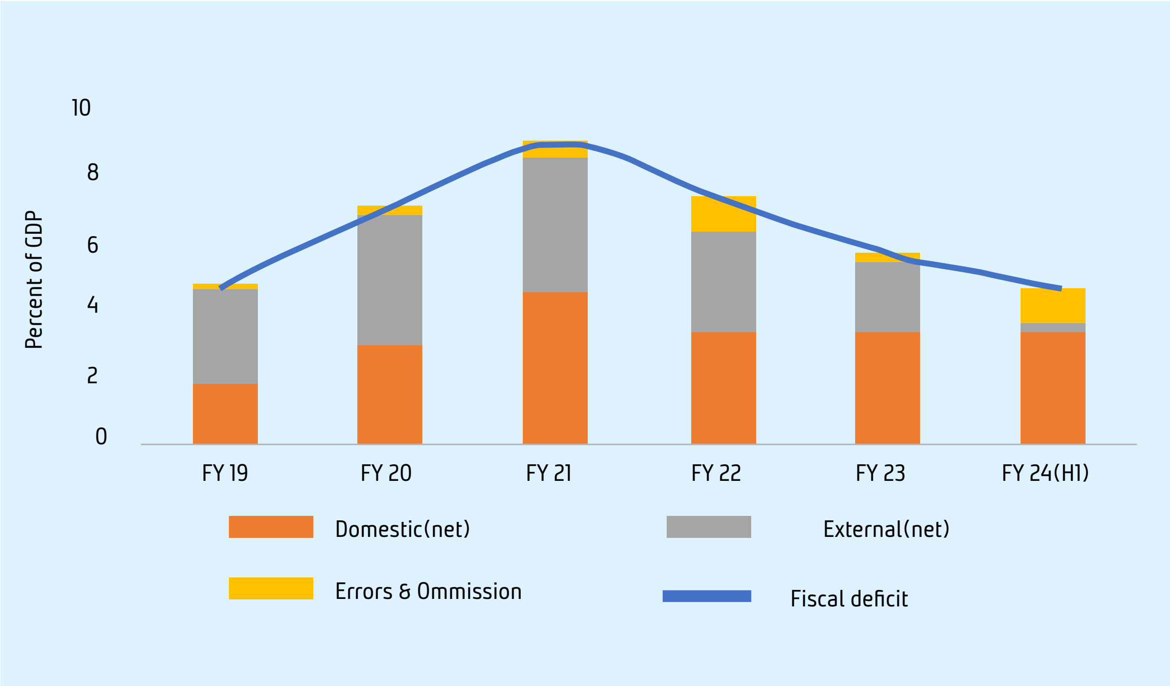
21. Total expenditures rose by 6 percentage points of GDP between the first and second quarters of FY23/24, slightly exceeding the target. At an estimated 19.9 percent of GDP, expenditures and net lending marginally surpassed the target of 19.7 percent for the first half of FY23/24. Recurrent spending increased due in part to a sharp rise in other non-categorized expenditures, which were 13 percent above the target. Interest payments edged up and continued to be driven by domestic debt service, which accounts for 80 percent of total interest payments. Increased spending in these areas offset the reduction in spending resulting from expenditure-rationalization measures implemented during FY23/24,[17] which included a moratorium on budget increases across all ministries, departments, and agencies, tighter restrictions on international travel by government officials, the suspension of salary increases and staff recruitment, a freeze on most vehicle purchases, and reduced spending on workshops and seminars. As in previous years, the under-execution of externally funded projects contributed the most to the reduction in the fiscal deficit, as capital spending fell 29 percent below its target. Incomplete project preparation (including a lack of feasibility studies and/or implementation plans), uncoordinated budgeting of the government's contribution, poor planning for rights of way and land compensation, inadequate contract management, and weaknesses in overall project management continue to hamper project execution.[18] As the implementation of development projects accelerates during the second half of FY23/24, expenditures and net lending could reach 19.8 percent of GDP.

22. Spending on the social sectors remains inadequate to meet Uganda's development needs. Expenditures on human capital accounted for just about 16 percent of total government spending in the first half of FY23/24. Spending on education, health, social protection, and water, sanitation and hygiene (WASH) amounted to 8.2 percent, 5.5 percent, 0.4 percent, and 1.5 percent of the budget, respectively.[19] These spending levels are below those recorded over the past decade, and public investment in human capital has declined as the government has prioritized closing infrastructure gaps, especially in the energy and transport sectors. According to government data, education expenditures averaged 2.1 percent of GDP or 11.9 percent of total public spending between FY15/16 and FY21/22, below the benchmark of 15-20 percent set out in the Education 2030 Framework for Action.[20] Health spending amounted to 1.3 percent of GDP or 7.2 percent of total public expenditures during the period, and the government contributed less than 20 percent of all health spending. External assistance accounted for about 50 percent of health spending, and OOP spending financed the remaining 30 percent—a distribution that may not be sustainable given the country's rapidly growing population. As described in the special focus section of this edition of the Uganda Economic Update, increasing public health spending is vital to ensure sustainable and inclusive development.

23. Domestic borrowing to finance the deficit exceeded planned levels during the first half of FY23/24,. As external financing disbursements slowed and global financial conditions tightened, the authorities increased borrowing from the domestic banking system from 5.9 percent of GDP in the first half of FY22/23 to 7.8 percent in the first half of FY23/24.[21] A continued reliance on domestic borrowing will further constrain private-sector credit growth and hinder economic activity.

17. MoFPED (2023a), The Second Budget Call Circular on Finalization of Budget Estimates for FY 2023/24. https://budget.finance.go.ug/sites/default/files/THE%20SECOND%20BUDGET%20CALL%20CIRCULAR%20%282nd%20BCC%29%20ON%20FINALISATION%20OF%20THE%20BUDGET%20ESTIMATES%20FOR%20FINANCIAL%20YEAR%202023-2024.pdf
18. See World Bank 2022. Uganda Economic Update, 19th Edition. Fiscal Sustainability through Deeper Reforms to Public Investment Management. Washington DC, and World Bank 2023. Uganda Public Expenditure Review Module II(A): Improving Public Investments to Raise Efficiency to Support Fiscal Adjustment. Washington DC.
19. MoFPED (2024), Semi Annual Budget Performance Report FY 2023-24
20. World Bank 2023. Uganda Public Expenditure Review: Options for a Sustainable Fiscal Adjustment. Washington DC.
21. MoFPED (2022 and 2023b), Quarterly Debt Statistical Bulletin and Public Debt Portfolio Analysis.

Figure 12. The fiscal deficit was mainly financed by domestic borrowing.



Source: MoFPED and World Bank Staff Calculations

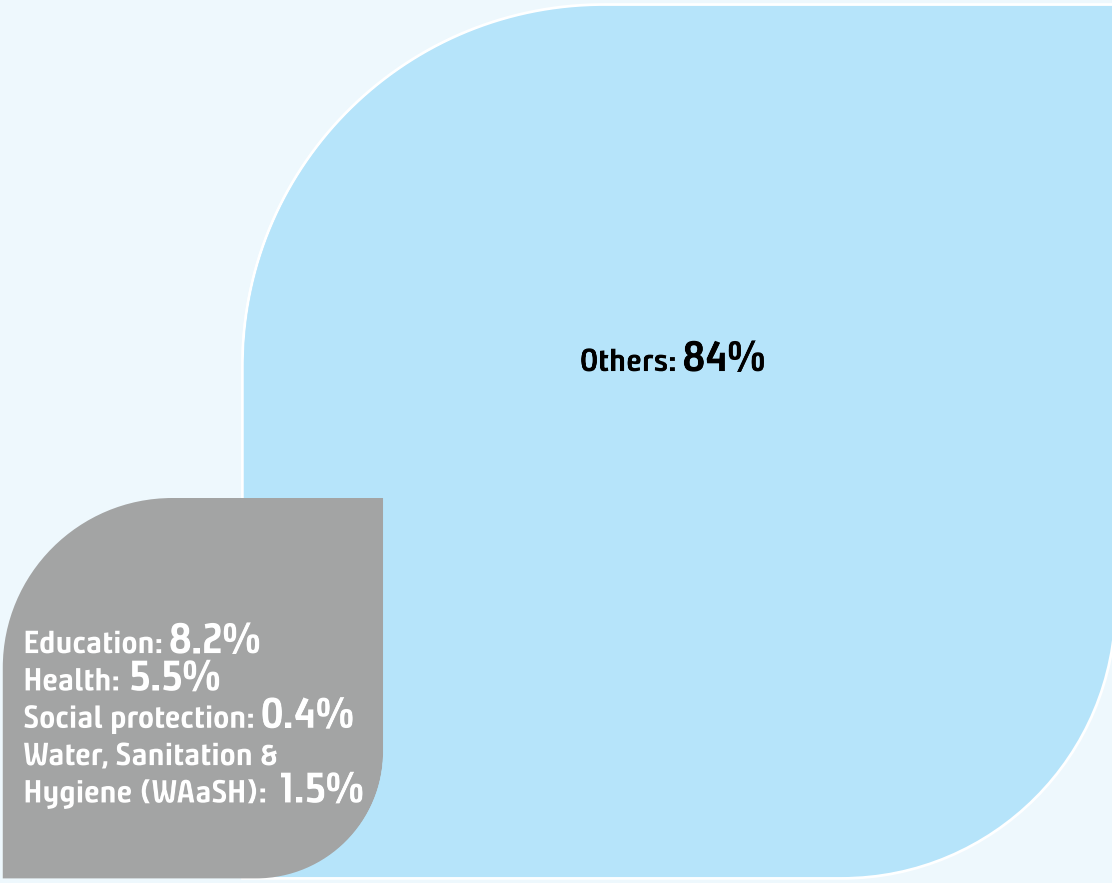


Table 2. Fiscal operations (% of GDP)

	FY20/21	FY21/22	FY22/23	FY22/23 (H1)	FY23/24 (H1)
Total Revenues and Grants	14.6	14.0	14.2	13.3	13.5
Revenues	13.3	13.3	13.6	12.4	12.9
Tax	12.3	12.5	12.8	11.6	12.0
Non-Tax	0.0	0.0	0.9	0.9	0.9
Grants	1.3	0.7	0.5	0.9	0.6
Expenditure and Lending	23.6	21.4	19.9	18.5	17.7
Current Expenditures	12.5	13.0	13.6	12.5	11.9
Wages and Salaries	3.5	3.4	3.9	3.7	3.5
Interest Payments	2.7	3.0	3.2	3.0	3.0
Domestic	2.1	2.5	2.5	2.4	2.4
External	0.6	0.5	0.6	0.6	0.6
Other Recurr. Expenditures	6.3	6.6	6.5	5.8	5.4
Development Expenditures	10.1	7.8	5.8	5.1	5.4
Domestic Development	6.5	5.0	3.9	2.6	3.3
External Development	3.7	2.8	1.9	2.5	2.1
Net Lending/Repayments	0.4	0.2	0.1	0.1	0.2
O/w: Hydropower projects	0.1	0.2	0.1	0.1	0.0
O/w: BOU Recapitalisation	0.3	0.0	0.0	0.0	0.2
Domestic Arrears Repaym.	0.5	0.4	0.4	0.7	0.2
Primary Balance	-6.3	-4.3	-2.6	-2.3	-1.2
Overall Fiscal Bal. (incl. Grants)	-9.0	-7.3	-5.7	-5.3	-4.2
Financing:	9.0	7.3	5.7	5.3	4.2
External Financing (Net)	4.0	2.9	2.1	0.2	0.2
Disbursements	5.0	4.0	3.4	1.5	1.4
Budget Support Loans	2.2	1.5	2.1	0.0	0.0
Project Loans	2.8	2.5	1.3	1.5	1.4
Amortization	1.0	1.0	1.3	1.2	1.2
Domestic Financing (Net)	4.6	3.4	3.3	3.8	3.1
Bank Financing (Net)	1.6	1.7	2.1	2.9	1.2
Non-bank Financing (Net)	2.9	1.7	1.3	1.0	1.9
Errors and omissions	0.4	1.0	0.3	1.2	1.0

Note: The debt stock stood at US$24.69 billion by end-December 2023.

Source: MoFPED

24. Poor planning, the routine use of supplementary budgeting, and weaknesses in overall public financial management have led to overspending, fiscal slippages, and the sustained accumulation of domestic arrears. During the first half of FY23/24, the government paid down USh 164 billion in domestic arrears. While this amount exceeded the target by 5 percent, it was still too small to address the growing problem of arrears, especially as the government continues to tighten spending as part of its fiscal consolidation. According to the Auditor General's Report for FY22/23, by June 2023 total domestic arrears had increased by 34 percent to USh 10.8 trillion, amounting to 20.6 percent of the revised national budget. The persistent accumulation of arrears indicates a failure in the commitment-control system and runs contrary to the 2021 Domestic Arrears Strategy. Similarly, the repeated use of supplementary budgets, sometimes funded through borrowing, is inconsistent with the budgetary discipline necessary to implement the fiscal consolidation agenda (Box 1). During the first three quarters of FY23/24, a supplementary budget of USh 4.6 trillion (9.1 percent of the approved budget) was adopted to finance the State House and the President's Office, as well as the public health and security sectors, and expenditures have already surpassed USh 2.8 trillion (5.7 percent of the approved budget). This level of excess spending is almost three times the limit of 3 percent established by the 2015 Public Finance Management Act. The supplementary expenditures were financed in part by internal budget cuts, which hindered the implementation of plans and activities,[22] and in part by anticipated borrowing. These practices undermine the credibility of the budget and make it difficult to achieve fiscal objectives.

Box 1: Supplementary expenditures are key challenge in fiscal management

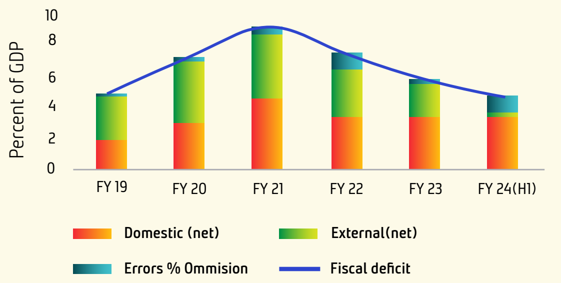
Supplementary spending declined for three years to about 5.7 percent of the budget in FY22/23, but this trend has since reversed. Over the first three quarters ending in March 2024, approved supplementary spending amounted to USh 4.54 trillion, or 8.9 percent of the approved budget for FY23/24. While the State House and Ministry of Defense tend to be among the main recipients of supplementary spending, the practice is spread across many ministries, departments, and agencies, implying it has become the norm for budgeting in Uganda. In the current fiscal year, the largest shares of supplementary spending went to the Ministry of Science, Technology and Innovation, local governments, the State House, the Ministry of Energy and Mineral Development, and the National Identification & Registration Authority.

Supplementary spending continues to undermine the credibility of annual planning and budgeting. Supplementary spending was used to finance support for investments in the pharmaceutical industry under DEI BioPharma Ltd; startup costs for the Karuma hydropower plant; and the procurement of the new National Security Information System; among others. Resources for these activities could have been allocated through the annual budget, and they likely fail to meet the definition of "unavoidable and unforeseeable" costs that would justify supplementary spending under the 2016 Public Finance Management Regulations. In addition to distorting the budget, supplementary spending reduces the transparency of the budgeting process and alters expenditure priorities. For example, the FY23/24 supplementary budget exceeded the total amount that the government spent on health and agriculture for FY24.

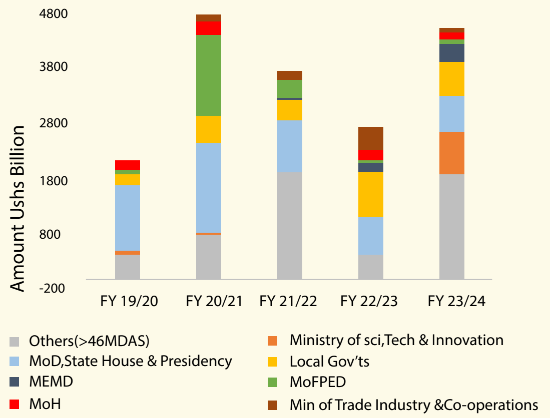
In addition to undermining public financial management, supplementary budgeting heightens macroeconomic risks. The additional resources to finance supplementary budgets are mainly obtained through borrowing, which has adverse implications for debt management. Moreover, large share of this borrowing is domestic, which crowds out credit to the private sector. In some cases, the additional costs are offset by internal budget cuts, which disrupts the implementation of approved programs and investments and may increase domestic arrears.

22. Office of the Auditor General (2023), Annual Report of the Auditor General to Parliament for the Financial Year Ended 30th June 2023

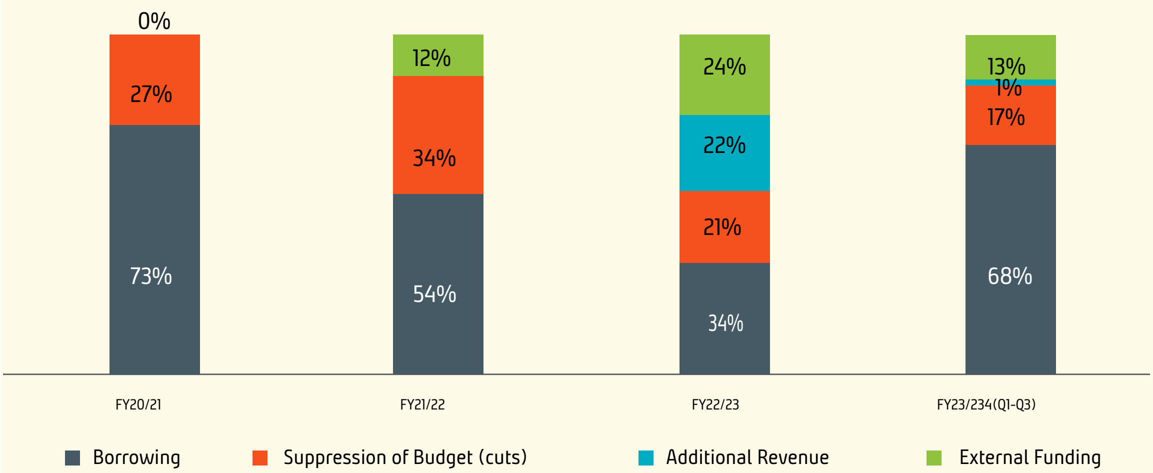
Box Figure 1: Supplementary spending is rising again.



Box Figure 2: Supplementary budgets are used across many ministries, departments and agencies.



Box Figure 3: Supplementary budget allocations are mainly financed through additional domestic borrowing.



Source: Parliament Budget office.

25. Relatively low and stable fiscal deficits have moderated the growth of Uganda's debt stock, but vulnerabilities persist due to increased non-concessional borrowing. Uganda's total public debt stood at US$24.69 billion (49.9 percent of GDP) at end-December 2023,[23] versus US$21.74 billion (49.6 percent of GDP) in December 2022. Domestic debt, which accounts for 41 percent of the debt stock, grew by 13.1 percent over the period to reach US$10.05 billion.[24] The latest joint World Bank-IMF Debt Sustainability Analysis (DSA), published in June 2023, concluded that Uganda is still solvent, with the present value of external debt relative to GDP and exports leaving substantial scope to manage even the most extreme shocks. However, the present value of the external debt-to-exports ratio, the external-debt-service-to-revenue ratio, and the external-debt-service-to-exports ratio all exceed their respective thresholds under a combined-shock scenario, which could result in a liquidity crisis.[25] While simulated shocks that increase domestic debt levels do not worsen solvency indicators, liquidity declines as debt-service costs rise. Since June 2023, debt reprofiling and higher interest costs have increased debt-service payments, which reached USh 3.1 trillion in the first half of FY23/24, 0.5 percentage points of GDP greater than anticipated. Interest payments accounted for 16.8 percent of total spending in the first half of FY23/24, up from 14.7 percent during the first half of FY22/23, as the concessional share of Uganda's debt continued to shrink. The debt level is estimated to have remained below 50 percent of GDP in FY23/24.

23. MoFPED (2023c), Quarterly Debt Statistical Bulletin and Public Debt Portfolio Analysis. Issue No. 35
24. MoFPED (2022), Quarterly Debt Statistical Bulletin and Public Debt Portfolio Analysis. Issue No. 1
25. IMF (2024), Fifth Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria. IMF Country Report No. 24/77

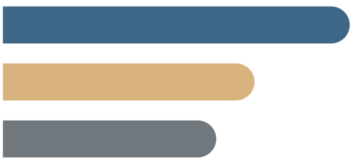
2. ECONOMIC OUTLOOK, RISKS, AND POLICY ACTIONS

Economic resilience is underpinned by the anticipated development of the oil sector.

Real GDP is projected to grow by **6.2% in FY24/25** and **accelerate to over 7%** in the medium term, driven by investments in oil and gas.

6.2% in FY24/25

Accelerate to over 7%



2. ECONOMIC OUTLOOK, RISKS, AND POLICY ACTIONS

2.1. Economic resilience is underpinned by the anticipated development of the oil sector.

26. Real GDP is projected to grow by 6.2 percent in FY24/25 and accelerate to over 7 percent in the medium term, driven by investments in oil and gas. This growth projection is slightly below the level forecasted in the December 2023 edition of the Uganda Economic Update,[26] as heightened geopolitical tensions are keeping upward pressures on prices, resulting in much tighter monetary policy than was envisaged six months ago. Nevertheless, growth will remain buoyant given the strong momentum of investment in the oil sector, as well as an expected increase in coffee and gold exports. Meanwhile, the implementation of the Parish Development Model (PDM)[27] and infrastructure projects could further bolster aggregate demand. Over the medium term, oil exports will transform Uganda's trade profile, while the government's efforts to promote tourism and agro-industrialization should help foster export diversification.

27. The ongoing construction of an estimated US$20 billion in oil-related infrastructure will keep economic activity strong until oil production takes off in 2025. The preparation of the Tilenga and Kingfisher oil-drilling project areas and investments in supportive infrastructure both within and outside the oil-producing region, including the Kabaale International Airport and the 1,400km East Africa Pipeline, will further boost construction and related activities. However, the start of oil production in 2025 will hinge on the timely acquisition of the remaining 60 percent of pipeline financing, which is expected to come from external creditors. The private sector is also developing financing arrangements to support production. The oil-driven surge in investments is expected to compensate for the adverse effect of relatively tight monetary policies, the ongoing fiscal consolidation, the uncertainty caused by the conflict in the Middle East, and adverse weather conditions.

28. Recent inflationary pressures are expected to subside in the medium term, boosting economic growth, employment, and real household income. The recent depreciation of the Ugandan shilling and increased energy prices are putting upward pressure on inflation. In addition, the upcoming El Niño season may reduce agricultural production and raise food prices. Prudent monetary and fiscal policies will be essential to keep inflation close to the target rate of 5 percent. The central bank will need to continue guarding against the inflationary pass-through effects of the shilling's depreciation and volatile commodity prices. Inflation-focused monetary policies, a risk-averse banking system, and tight global liquidity conditions will continue to suppress private-sector credit, investment, and aggregate demand in the short term, though easing inflation should facilitate stronger growth over the medium term. More effective coordination of monetary and fiscal policies will mitigate the impact of inflationary pressures while supporting private-sector growth.

Over the medium term, oil exports will transform Uganda's trade profile

26. World Bank 2023. Uganda Economic Update, 22nd Edition (December 2023). More Effective, Efficiency and Equitable Spending in Education will help Uganda Realize its Potential. Washington DC.
27. Bank of Uganda (2023), State of the Economy, December 2023

Table 3. Baseline economic outlook (annual % change unless otherwise indicated)

	FY23	FY24f	FY25f	FY26f
Real GDP growth (baseline)	5.3	6.0	6.2	6.6
Private consumption	4.4	5.6	5.8	5.8
Government consumption	5.5	5.1	5.3	4.6
Gross fixed capital investment	6.0	8.2	9.3	9.3
Exports of goods and services	7.0	7.7	8.3	8.4
Imports of goods and services	3.2	8.6	8.7	8.8
Agriculture growth	4.8	4.9	5.0	5.1
Industry growth	3.8	6.2	6.5	6.5
Services growth	6.2	6.4	6.6	7.4
Inflation (CPI)	8.8	3.1	4.5	5.0
Current account (% GDP)	-8.2	-8.1	-7.4	-6.9
Net FDI inflow (% GDP)	5.9	8.7	10.9	9.9
Fiscal balance (% GDP)	-5.5	-4.5	-5.0	-4.3
Public debt (% GDP)	50.2	48.8	50.5	51.9

Sources: UBOS, MoFPED, BoU, and World Bank staff estimates

29. Accelerated growth and lower inflation are expected to reduce poverty. A continued increase in nonfarm income and declining inflation are expected to boost consumption, and accelerated growth could reduce the poverty rate (measured at US$2.15 per person per day) from 41.3 percent in 2024 to 40.1 percent by 2026. High commodity prices are expected to bolster the income of cash-crop-producing agricultural households, and although they remain a small share of all households due to the low level of agricultural commercialization, income gains among them will likely have positive spillovers on other sectors. However, given the limited capacity of Ugandan households to cope with shocks, the pace of poverty reduction will ultimately depend on the evolution of food access and affordability, as well as weather conditions and other environmental shocks. The extent to which oil production benefits poor households will hinge on the quality of economic policies and the strength of public institutions.

30. The current-account balance is projected to improve in the medium term as oil-related capital imports decline. Non oil exports are also projected to expand, driven by coffee and minerals, especially gold and iron ore. Rising regional demand could further increase commodity exports if consumers start substituting into high-value products from Uganda as the country builds its capacity for value addition. Robust export growth and slowing imports would allay concerns around "Dutch disease," especially if the shilling also continues to appreciate in real terms.[28] Remittances are expected to grow in line with global growth and as employment conditions in source countries improve.

31. Oil-related FDI and external debt inflows will continue to finance a large share of the current-account deficit. FDI is projected to exceed 10 percent of GDP in FY24/25, supported by the development of the oil sector and the unlocking of flows to other sectors following Uganda's removal from the FATF Grey List in February 2024. Large FDI inflows will ease financing needs in the private sector, minimize pressure on the foreign-exchange market, and provide a more conducive environment for the central bank to gradually accumulate foreign-exchange reserves. Moreover, the use of external non-concessional financing is likely to be limited given the authorities' strategy to maximize concessional financing to maintain sustainable debt dynamics.

32. By raising spending by over 2 percent of GDP in FY24/25, amidst low revenues, government has suspended the fiscal consolidation agenda. The

28. World Bank (2010). Dealing with Dutch Disease. Economic Premise. Poverty Reduction and Economic Management Network. June 2010, Number 16. Report Number 53687. Washington DC

fiscal deficit is projected to reach above 5.0 percent of GDP during FY24/25, before declining slightly to 4.3 percent in FY25/26. Considering the perennial execution challenges, our projection is slightly lower than government's official budget projection of 5.7 percent and 4.3 percent of GDP in FY24/25 and FY25/26, respectively, but remains well above the CFR's fiscal deficit target of 4.2 percent and 3 percent, respectively. The implementation of the Domestic Revenue Mobilization Strategy (DRMS) remains slow. Reforms to tax expenditures and VAT, coupled with improvements in tax administration, are expected to raise non-oil revenue by 0.2 and 0.4 percentage points of GDP in FY24/25 and FY25/26, respectively, with the latter year expected to be boosted by an addition 1.4 percentage points of GDP on account of oil related revenues, including capital gains from change of ownership in some of the fields. While it remains sustainable, debt will also increase to about 51 percent of GDP by FY25/26—hence violate the CFR targets—with a stagnation in the debt-to-GDP ratio expected as oil exports commence. Negative debt dynamics should keep debt-service costs high and exacerbate the risk of crowding out lending to the private sector, further emphasizing need for better coordination of fiscal and monetary policies to support a smoother adjustment. In addition to maximizing concessional financing, reducing recourse to net borrowing through bank advances and/or the non-payment of matured securities would increase budgetary flexibility and expand the fiscal space to respond to shocks. Greater domestic revenue mobilization and more efficient public investment management would further bolster fiscal sustainability. To avoid creating new vulnerabilities, oil revenues must be managed efficiently through stronger institutions and systems (Box 2). In addition to reverting to fiscal consolidation, the government will need to adjust the allocation of expenditures to build the human capital necessary for structural transformation by investing in education, health, and social protection, which are also critical for inclusive growth and poverty reduction.

Box 2: Strong fiscal institutions and wealth-management systems are required to maximize the benefits of oil revenue

Fiscal rules: The government has adopted a fiscal rule under its current CFR (FY21/22-FY25/26) that, if adhered to, could have helped manage volatility during the transition and the anticipated revenue boom as oil exports grow. However, the implementation of the rule has been uneven. As oil revenues increase, the authorities will need to adopt a fiscal-sustainability framework that will enable the scaling up of public investment in line with the country's macroeconomic objectives, absorptive capacity, and revenue volatility. Such a framework must be backed by a mechanism to ensure compliance with fiscal rules and expenditure targets, with realistic penalties to minimize political interference.

Transparency: Uganda joined the Extractive Industries Transparency Initiative (EITI) to improve transparency in the management of revenues from extractive industries, including the oil sector. The EITI offers a framework for determining the amount and variability of oil revenues, considering uncertainties about production, price, and other factors. To anchor expectations and raise awareness about the challenges associated with oil revenues, the government must increase public outreach on issues around fiscal management, including the expected size and volatility of oil revenues, fiscal targets and fiscal rules, and areas for investing oil revenues.

Savings versus investments: Uganda established a Petroleum Fund to manage excess oil revenue, but there is no framework for determining how much revenue to save, when to save it, or how reserves from the fund should be spent. Without this framework, the Petroleum Fund's sustainability and capacity to maintain the country's wealth as it depletes its natural assets will be severely compromised.

The legal and regulatory framework for oil-revenue management: The frameworks for managing oil revenue, including the Oil and Gas Revenue Management Policy (2012) and the PFM Act (2015), need to be updated and strengthened. The regulations underpinning the Petroleum Revenue Investment Reserve (PRIR) must be revised to clarify its design and functions, provide legal certainty, clarify roles and responsibilities, and transform it into a genuine sovereign wealth fund.

Source: Adapted from World Bank, 2021. Uganda Oil Revenue Management – Closing Gaps in the Fiscal and Savings Frameworks to Maximize Benefits EFI Insight-MTI and Finance. Washington, DC.

33. A combination of macroeconomic and structural policies will be necessary to prevent Dutch disease by increasing productivity and diversifying the economy. Structural reforms will establish the basis for robust private-sector-led growth in line with the Third National Development Plan and the strategic orientation of its successor. The structural external current-account deficit is likely to persist as import growth continues to outpace export growth in the short-to-medium term. The authorities will need to avoid exchange-rate misalignments, especially as oil exports commence, while investing heavily in the nonoil economy to enhance productivity and boost export growth. Export-promotion efforts must extend beyond Uganda's traditional export commodities, and the authorities should aggressively promote service exports. Other priorities include improving governance and reducing corruption, strengthening financial stability, expanding access to finance, and enhancing the central bank's independence.

2.2. Numerous risks threaten Uganda's medium-term outlook

34. The medium-term outlook is subject to considerable uncertainty. A more severe deterioration of the global economy due to rising geopolitical tension or an escalation of the conflict in the Middle East would reduce Uganda's exports and distort import supply chains. Vulnerabilities in China and Europe pose particularly serious risks, as these are the main sources of investment in Uganda's oil sector. Slower disbursements, especially as the 2026 election draws closer, could complicate fiscal policy, further reduce foreign-exchange reserves, and raise the risk of a balance-of-payments crisis as the authorities increasingly close gaps with non-concessional financing or fail to secure financing. A steeper depreciation of the exchange rate and rising inflationary pressures could also necessitate tighter monetary policy, slowing the recovery of business activity and household income. Additional monetary tightening could erode asset quality in the banking sector, raising costs and further constraining access to finance for firms. The tourism sector remains highly sensitive to shocks, including outbreaks of Ebola virus and other infectious diseases, travel warnings imposed by major source countries, and adverse domestic developments.

35. The increasing frequency of droughts and floods heightens the vulnerability of Uganda's businesses, farms, and households. Many households rely on the agricultural sector as their primary source of livelihood, and they often have limited capacity to adapt to natural disasters and climatic stressors. Increased weather-related shocks could reduce agricultural yields, lower export earnings, intensify food insecurity, and exacerbate poverty. While the country has escaped the El Niño rains that have caused havoc among regional neighbors like Malawi and Zambia, uncertainty around the anticipated La Niña phenomenon persists, and longer drought conditions could heavily affect agricultural output. Moreover, the country's vulnerability to climate change and environmental stressors raise questions regarding: (i) how different climate futures might impact the country's growth path; (ii) how the country's increasingly oil-reliant growth path may evolve amid ongoing global action towards decarbonization; and (iii) how the implementation of the Nationally Determined Contribution under the Paris Climate Agreement can promote a more green and sustainable growth path.

36. Under a downside scenario, annual GDP growth could fall to about 5 percent in FY24/25 before marginally recovering to 5.5 percent in FY25/26. This scenario assumes that slowing global economic activity will reduce demand for Uganda's exports, weigh on remittances and FDI, and lower commodity prices. The resulting depreciation pressures and pass-through effect on domestic inflation will require further monetary tightening, with adverse implications for credit to the private sector and overall growth.

37. Slower growth would also undermine the fiscal consolidation. In addition to reducing fiscal revenue, which remains highly sensitive to shocks, slow growth will increase spending pressure and undermine efforts at fiscal adjustment. External shocks and the increasing frequency of natural disasters due to climate change could also worsen the country's debt profile. Increased government borrowing from commercial banks would crowd out credit to the private sector, with negative implications for consumption and investment.

38. Uganda's risk of debt distress is rated "moderate," but debt vulnerability could increase. Lower growth could further limit the fiscal space to absorb shocks. In addition to an uncertain external outlook, environmental shocks, inconsistent reform efforts, delays in oil production, and the finite capacity of commercial banks to provide deficit financing could heighten the risk of debt distress. The most extreme shock to the public debt profile could come from the materialization of contingent liabilities, which could push the debt-service-to-revenue ratio to 65 percent, while a steep decline in exports poses the greatest risk to external debt sustainability.

Increased government borrowing from commercial banks would crowd out credit to the private sector, with negative implications for consumption and investment.

PART | 2 |
LINKING PUBLIC SPENDING ON HEALTH TO HUMAN CAPITAL DEVELOPMENT

3. ASSESSING THE ADEQUACY, EFFICIENCY, EQUITY, AND EFFECTIVENESS OF PUBLIC SPENDING IN HEALTH

3.1 The key role of the health sector in developing Uganda's human capital

39. Health and nutrition are key determinants of human capital development and economic growth. Access to high-quality health services reduces the prevalence of disability and premature death, while positive health outcomes are associated with increased worker productivity and gains in social development indicators. Each additional year of life raises GDP by an estimated 4 percent[29] and increases gross FDI inflows by as much as 9 percent.[30] Underscoring the positive and complementary impact of health and nutrition, a one-centimeter increase in stature is associated with a 4 percent increase in wages for men and a 6 percent increase for women.[31] The child and adult survival rates also influence the demographic age structure, and in Uganda, where half of the population is below the age of 16, investments in health and nutrition can help generate a demographic dividend.[32]

40. Significant investments in human capital will be vital for Uganda to achieve a demographic dividend. Uganda is currently a pre-demographic-dividend country, with high fertility rates and a large population of young people. With an annual growth rate of 3 percent, Uganda's population is expected to reach 71.5 million by 2040. The total fertility rate is high at 5.2 children per woman, and the adolescent fertility rate is 108 births per 1,000 women ages 15-19. With large cohorts of adolescents reaching reproductive age, rapid population growth threatens to undermine Uganda's social and economic development.

41. To attain a demographic dividend, the government must invest in human capital.[33] Countries that moved from low- to high-income status in a matter of decades, such as Singapore and the Republic of Korea, invested heavily in education and health during their dividend window.[34] The decisions the Ugandan government makes now regarding investments in public health will play a key role in determining whether the country seizes, or misses, the opportunity presented by the demographic dividend.

42. Due in part to chronic underinvestment in public health, the productivity of Uganda's next generation of workers is among the lowest worldwide. Uganda's score on the 2020 Human Capital Index (HCI) was 0.38, indicating that a child born today will reach only 38 percent of what her lifetime productivity could have been had she received a complete education and been in full health. Uganda ranked 154th out of 174 countries on the 2020 HCI, and its score was close to the averages for SSA and low-income countries worldwide. Investments in health and nutrition directly affect three of the four HCI indicators—the under-five stunting rate, the under-five mortality rate, and the adult mortality rate.

43. Investments in health and nutrition have yielded important gains, but rapid population growth and other challenges limit the country's capacity to provide adequate health services. The Ugandan government has worked closely with development partners to implement investments in health and nutrition, and the 2022-23 Uganda Demographic and Health Survey revealed substantial improvements in key maternal and child health indicators, such as the share of deliveries at health facilities and the maternal mortality rate. Nevertheless, most health indicators are still below national, regional, and global targets. The health sector faces a range of critical challenges around financing, human resources, access to medical supplies, and the availability of high-quality infrastructure and equipment.[35] As the population continues to grow, achieving universal

29. Bloom and Canning 2003; He and Li 2020
30. Alsan et al. 2006
31. McGovern et al. 2017
32. A demographic dividend occurs when the size of the working-age population surges relative to the dependent population, yielding rapid gains in economic output per capita. To achieve a demographic dividend, adequate employment opportunities must be available, and workers must possess the skills demanded by the labor market.
33. Human capital refers to the combination of "knowledge, skills, and health that people invest in and accumulate throughout their lives, enabling them to realize their potential as productive members of society" (World Bank 2023).
34. OFCD 2010
35. MoH 2019

health coverage and meeting the health-related SDGs will require sustained improvements in the efficiency, equity, and effectiveness of health spending, along with a substantial increase both in overall funding for the health sector and in the share of funding provided by the government.

44. The Ugandan government is committed to improving human capital. Ensuring the equitable provision of high-quality health services and improving nutrition indicators are key objectives of the third National Development Plan (NDP III). In July 2023, the government committed to the Dar es Salaam Declaration on Human Capital Development,[36] reaffirming its commitment to achieve the SDGs and other global targets by 2030. Key objectives include raising the childhood-immunization rate to over 90 percent, reducing the under-five mortality rate to less than 25 deaths per 1,000 live births, cutting the under-five stunting rate by 40 percent, and lowering the maternal mortality rate to no more than 70 deaths per 100,000 live births.

45. Drawing on the findings of the World Bank's 2022-23 Uganda Public Expenditure Review, this edition of the Uganda Economic Update examines how the government can improve the financing and provision of health services to build human capital. The following section assesses the adequacy, efficiency, effectiveness, and equity of health spending and provides recommendations for addressing key challenges in the heath sector.

3.2 The organisation of the health sector in Uganda

46. The Ministry of Health (MoH) is responsible for policy formulation, strategic planning, and the delivery of specialized health services, while primary healthcare services are provided mainly by local governments. The 1995 Constitution, the 1935 Public Health Act, and the 1997 Local Government Act all assign responsibility to the MoH for leadership and strategic direction, policy, and planning, and monitoring and evaluation of performance in the health sector. Uganda's strategy for the development of the health sector is part of the Human Capital Development Program (HCDP) under the NDP III (FY20/21– FY24/25),[37] the third of six plans that together aim to achieve the country's long-term national development agenda, the Vision 2040. The HCDP strives to address human development challenges around health, nutrition, education, gender equity, and youth empowerment. In the health sector, the HCDP's goal is to increase the share of the population with universal health coverage.

47. Uganda's three-tiered health system includes a total of 8,386 public and privately managed health facilities at the primary, secondary, and tertiary levels. At the primary level, Health Center IIs are typically the first points of entry into the health system, and they are designed to provide outpatient and outreach services. Other primary health facilities in the referral system include Health Center IIIs, Health Center IVs, and general hospitals. At the secondary level are regional referral hospitals, while the tertiary level consists of national and specialized hospitals. In FY22/23, private for-profit providers operated 46 percent (3,856) of Uganda's health facilities, followed by the government at 41 percent (3,448), and private nonprofit providers at 13 percent (1,082). Because most of the country's largest and busiest health facilities are publicly owned and operated, the government is the leading healthcare provider and employer in the health sector. Public healthcare facilities account for 79 percent of outpatient visits, followed by private nonprofit facilities (14 percent), and private for-profit facilities (7 percent). Public facilities also receive 67 percent of inpatient admissions, followed by private nonprofit facilities at 27 percent and private for-profit facilities at 6 percent. However, the volume of patients treated at private facilities may be underestimated due to the low reporting levels among private health providers.

36. Dar es Salaam Declaration on Human Capital Development, 26th July 2023. Accessed from: https://documents1.worldbank.org/curated/en/099437408012323869/pdf/IDU00fcd4a900d09e0425a0af8c02a2df6c51237.pdf
37. NPA 2020

Table 4: Health facilities in Uganda by type, 2023

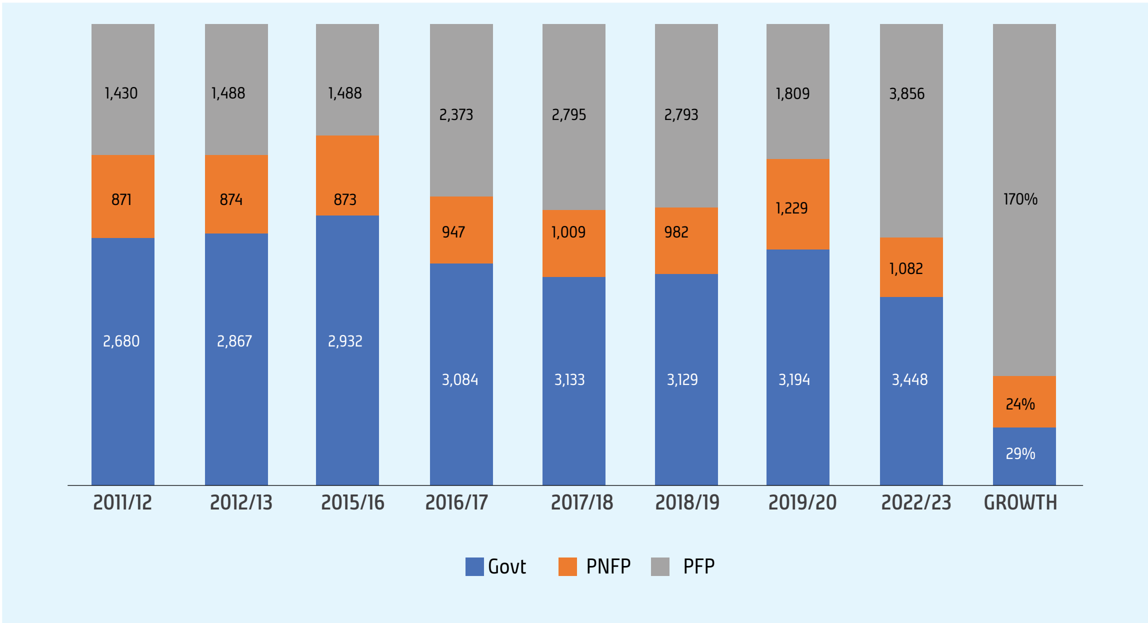
	Ownership				Share of facility type		
Type of Facility	**Govt**	**PFP**	**PNFP**	**Total**	**Govt**	**PFP**	**PNFP**
Health Center II	1,815	3,418	558	5,791	31%	59%	10%
Health Center III	1,357	321	389	2,067	66%	16%	19%
Health Center IV	197	41	30	268	74%	15%	11%
Special Clinic	0	2	28	30	0%	7%	93%
General Hospital	55	72	73	200	28%	36%	37%
Regional Referral Hospital	16	0	0	16	100%	0%	0%
Specialized Hospital	3	2	4	9	33%	22%	44%
National Referral Hospital	5	0	0	5	100%	0%	0%
Total	**3,448**	**3,856**	**1,082**	**8,386**			
Share of Total	**41%**	**46%**	**13%**	**100%**			

Note:
Govt=government, PFP=private-for-profit, and PNFP=private-not-for-profit. Health Center II includes clinics.
Source: World Bank staff construction from MoH 2022/23 Master Facility List.

48. Over the past 10 years, the number of health facilities in Uganda increased significantly, driven by private for-profit providers. Overall, the number of health facilities rose by 68 percent between FY11/12 and FY22/23. Though the government built new health facilities and modernized and restored several existing ones, the number of government facilities only increased by 29 percent while the number of private nonprofit providers and private for-profit facilities increased by 24 percent and 170 percent, respectively, over the period. The rapidly growing number of privately run healthcare facilities suggests a conducive environment for private investment in the health sector, though it may also reflect the limited availability of public health facilities and/or their inability to deliver high-quality healthcare. Most private for-profit facilities are small and fall below the Health Center II designation, and many private facilities employ health workers who also work at government health facilities[38]. Despite the slow expansion of public health facilities, the government remains the country's leading healthcare provider, as most government facilities are national and attend to a very large volume of patients. Nevertheless, the growing share of private health facilities in Uganda warrants strong public-private partnerships to promote robust service delivery.

38. This phenomenon could be referred to as moonlighting in some jurisdictions if the contracting allows for one to work second job but after the normal hours for the first job

Figure 13. Trends in the distribution of health facilities by ownership



Govt=government, PNFP=private-not-for-profit, and PFP=private-for-profit
Source: World Bank staff construction from MoH Reports and 2022/23 Master Facility List.

3.3 Key health outcomes

49. Over the past two decades, Uganda has made significant progress towards achieving universal health coverage. Uganda's score on the Universal Health Care service coverage index increased by 123 percent between 2000 and 2021—the third highest increase among peer countries after Ethiopia (169 percent) and Rwanda (158 percent). The index measures the coverage of essential health services and their impact on health outcomes. Despite these important gains, overall coverage remains relatively low at just 49 percent, and additional investments will be needed to improve health and nutrition outcomes.

Table 5. Universal health care index scores, Uganda and comparators

Peer Countries	2000	2015	2021	Increase (2021 vs 2000)
Sudan	25	43	44	76%
Kenya	28	50	53	89%
Congo, Rep.	21	38	41	95%
Cameroon	22	42	44	100%
Uganda	22	43	49	123%
Rwanda	19	44	49	158%
Ethiopia	13	34	35	169%

Source: World Bank staff construction from World Development Indicators data

50. Increased access to health services over the past decade has contributed to better health and nutrition outcomes. Several of Uganda's health and nutrition indicators are better than the average for low-income countries. However, the share of children between the ages of 12-23 months with all basic vaccinations remained very low at an estimated 54 percent in 2022, while both the total and adolescent fertility rate are above the low-income-country average. Weak indicators of service availability and readiness at health facilities undermine healthcare quality.[39] The index score for general service readiness (which measures the presence of basic amenities, equipment, diagnostics, staff training and guidelines, medicines and commodities) in the 2022 Harmonized Health Facility Assessment in Uganda[40] was just 0.59, indicating that only 59 percent of all public and private health facilities in Uganda were able to provide quality health services in 2022. Low readiness levels underscore the importance of increasing investment in the quality of health services.

Table 6. Key demographic and health indicators

Indicator	Uganda			LIC
	2011	2016	2022	2022
Population, total (millions)**	32.3	40.1	47.2	-
Immunization, all basic vaccinations (% of children aged 12–23 months)*	52	55	54	-
Fertility rate, total (births per woman)*	6.2	5.4	5.2	4.6
Adolescent fertility rate (births per 1,000 women ages 15-19)	128.5	117.8	107.9	95.6
Teenage mothers (% of women ages 15–19 who have had children or are currently pregnant)	23.8	24.8	24.0	-
Prevalence of stunting, height for age (% of children under 5 years)*	33	29	26	33.5
Mortality rate, under-5 (per 1,000 live births)*	90	64	52	67.4
Maternal Mortality Ratio (deaths per 100,000 live births)*	438	336	189	409
Life expectancy at birth, total (years)^	58.0	61.6	62.7	62.5

*Data sources: Uganda data from *Uganda Demographic and Health Survey (UBOS 2022), **World Population Review, ^World Development Indicators. LIC=Low-Income Country. LIC data from World Development Indicators. LIC data is latest year available.*

3.4 Spending on health and availability of core health workers and medicines

Adequacy of overall health spending

51. The overall level of health spending in Uganda is inadequate. Current spending in the health sector was 5.7 percent of GDP in FY20/21, just above the World Health Organization (WHO) recommendation of 5 percent and in line with the averages of 5.2 percent for structural peers. However, total current health spending was just US$50.5 per capita, far below the estimated US$86 per capita recommended for a typical low-income country[41] as well as the average of US$75.6 per capita among aspirational peers. Rapid population growth is intensifying pressure on healthcare resources, and a significant increase in the budget allocated to the health sector will be necessary to raise per capita spending to the required level.

39. MoH and WHO (2023)
40. McIntyre et al. 2017
41. McIntyre et al. 2017 Burt et al. 2021; Ahmed et al. 2022

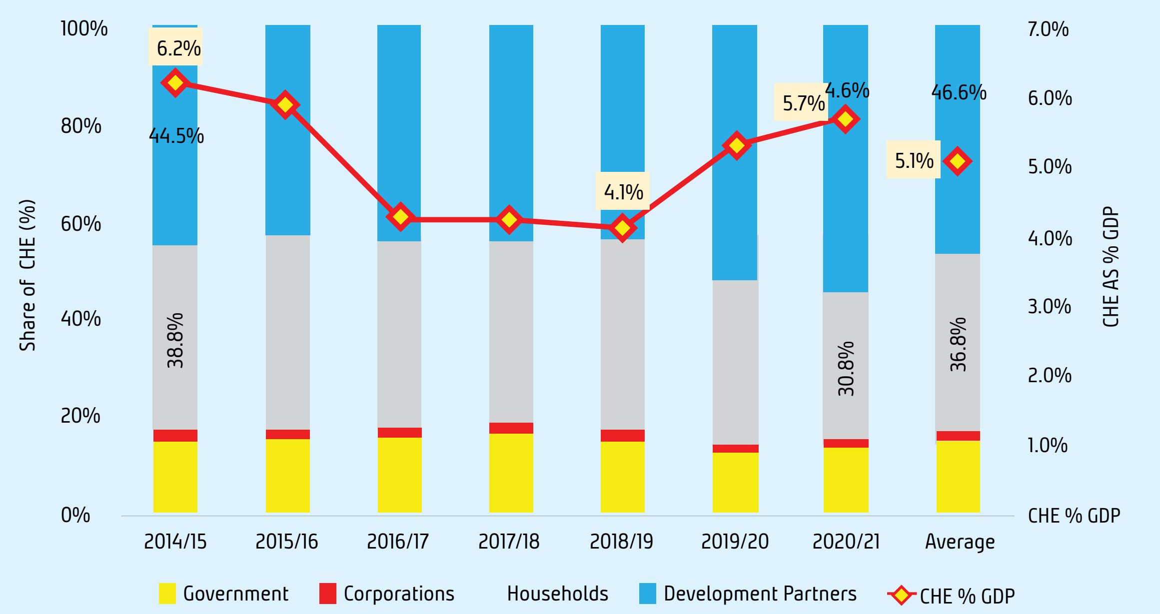
Table 7. Key health-finance indicators for FY20/21

Country	Current health spending		General government health spending from domestic sources			Health sector wage bill
	per capita	% of GDP	% of GDP	% of current spending	% of total government spending	% of public health spending
Uganda	50.5	5.7	0.7	13.4	3.9	37
Benchmarks	86a	5.0b			15.0c	45-60d

Data source: MoH 2023; Government financial data; World Development Indicators; Vujicic, Ohiri, and Sparkes 2009. GGHE-D = General government health expenditure (domestic sources); PEH=Public Expenditure on Health. a= McIntyre et al (2017), b=WHO, c=Abuja target (WHO), and d=Chisholm and Evans (2010).

52. Households and external development partners finance a combined 85 percent of current health spending. External development partners financed the majority of current spending during FY14/15–FY20/21. In FY20/21, external support was responsible for 55 percent of current spending, while out-of-pocket expenditures by households accounted for 30 percent. Public expenditures represented just 13 percent of current spending, while employers (corporations) contributed 1.8 percent. Overall health spending in Uganda declined sharply between FY15/16 and FY18/19 before support from external development partners reversed this trend. Nevertheless, current spending amounted to just 5.7 percent of GDP in FY20/21, down from 6.2 percent in FY14/15. Households spend most of their money on medicines and medical commodities which took 49 percent of their spending by FY19/20. This can be attributed to the low availability of medicines and medical commodities at public health facilities in Uganda.

Figure 14. Total current health spending, FY14/15 – FY20/21

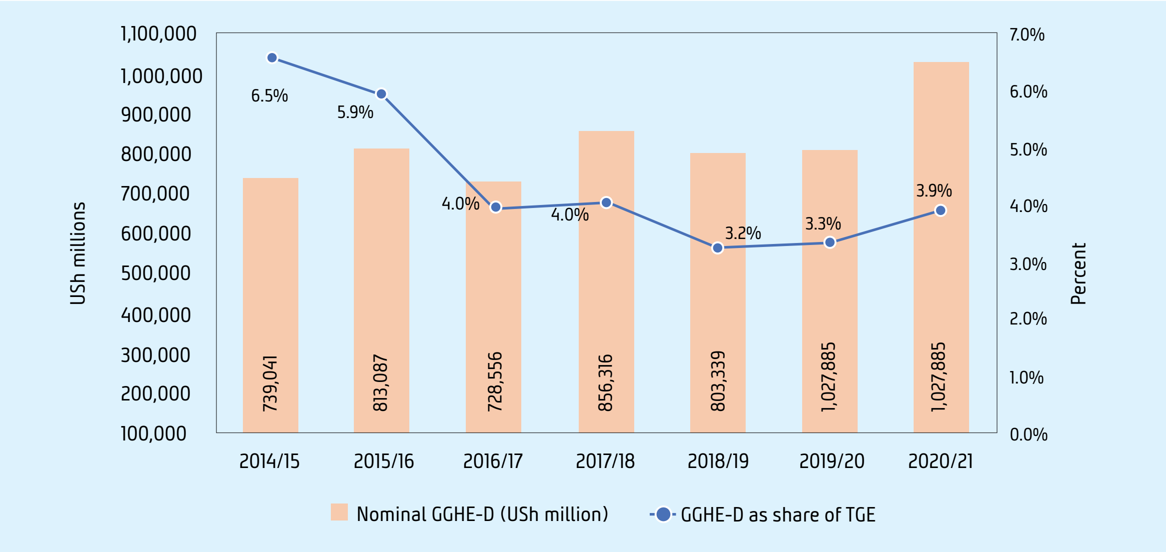


Source: World Bank staff construction from MoH 2020a; 2023.

The adequacy of government health expenditures

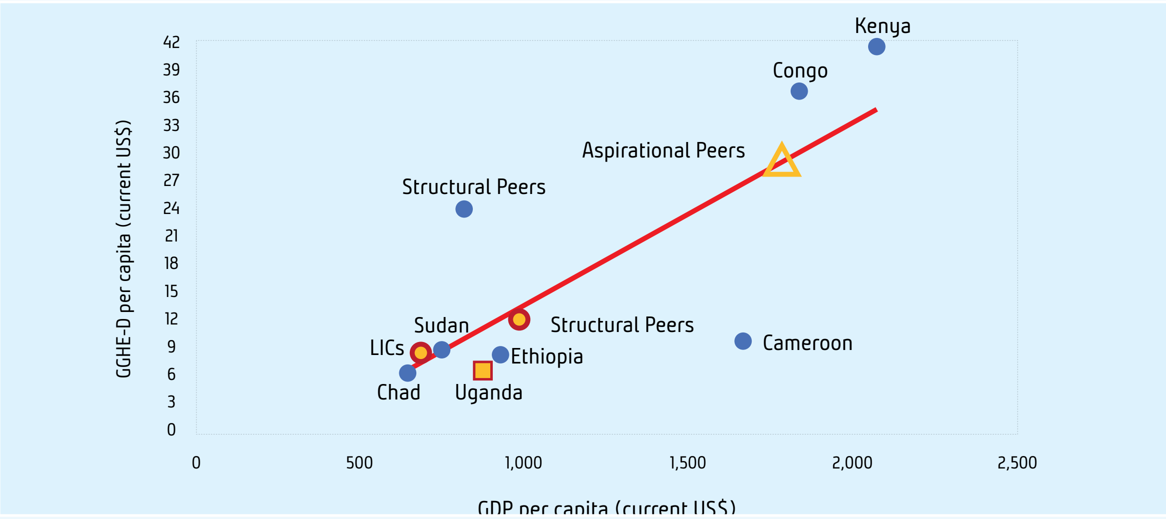
53. The government has not adequately prioritized health spending. In nominal terms, general government health spending from domestic sources declined from 6.5 percent of total health spending in FY14/15 to 3.9 percent in FY20/21, increasing the share borne by households and external development partners. During FY14/15–FY20/21, domestically financed government health spending averaged US$6.2 per capita, and by FY20/21 it had risen to just US$6.8—well below the average for peer countries, both in SSA and worldwide. Low levels of public financing constrain the health sector's ability to procure sufficient goods and services and to effectively respond to public health emergencies, resulting in the disruption of essential services and foregone care. For instance, the COVID-19 pandemic negatively affected the provision of maternal, neonatal, and child healthcare services in Uganda; and threatened to reverse recent gains in health-service delivery and health outcomes.[42]

Figure 15. General government health spending from domestic sources



Note: GGHE-D=General Government Health Expenditure – Domestic; TGE=Total Government Expenditure
Source: World Bank staff construction from government financial reports.

Figure 16. General government health spending, Uganda and Comparators, FY20/21



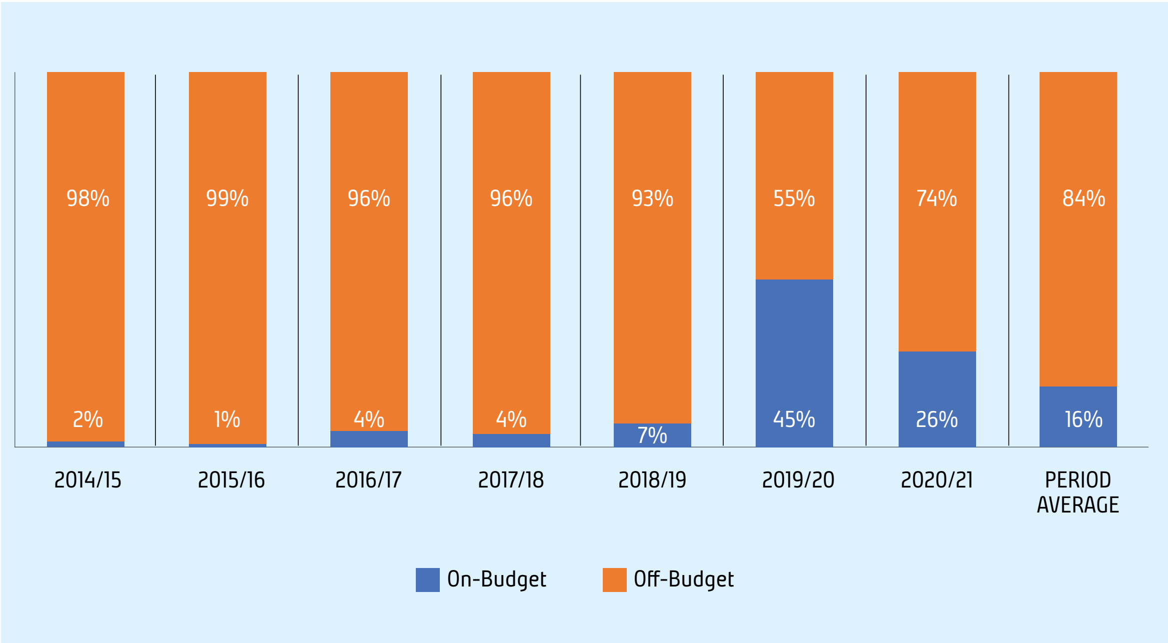
World Development Indicators data. GGHE-D=General Government Health Expenditure–Domestic; LICs=Low Income Countries
Source: World Bank staff construction from Uganda government financial reports and

42. Burt et al. 2021; Ahmed et al. 2022

The administration of health funding and its alignment to the disease burden

54. Much of the external funding provided to the health sector is executed off-budget. On-budget donor expenditures accounted for an average of just 16 percent of total donor funding in the health sector in FY14/15–FY20/21, while the other 84 percent of donor spending was off-budget. High levels of off-budget donor support may reflect a lack of confidence in the country's public financial management system. Most off-budget donor funding is administered by aid agencies and nongovernmental organizations via their own planning, financing, procurement, and monitoring systems. This approach reduces the flexibility of resource allocation and limits the ability of policymakers to re-prioritize funding to address critical needs. Executing a larger share of health expenditures through the budget could help improve the government's public financial management systems while promoting national ownership, increasing the efficiency and effectiveness of spending, and fostering greater financial sustainability.

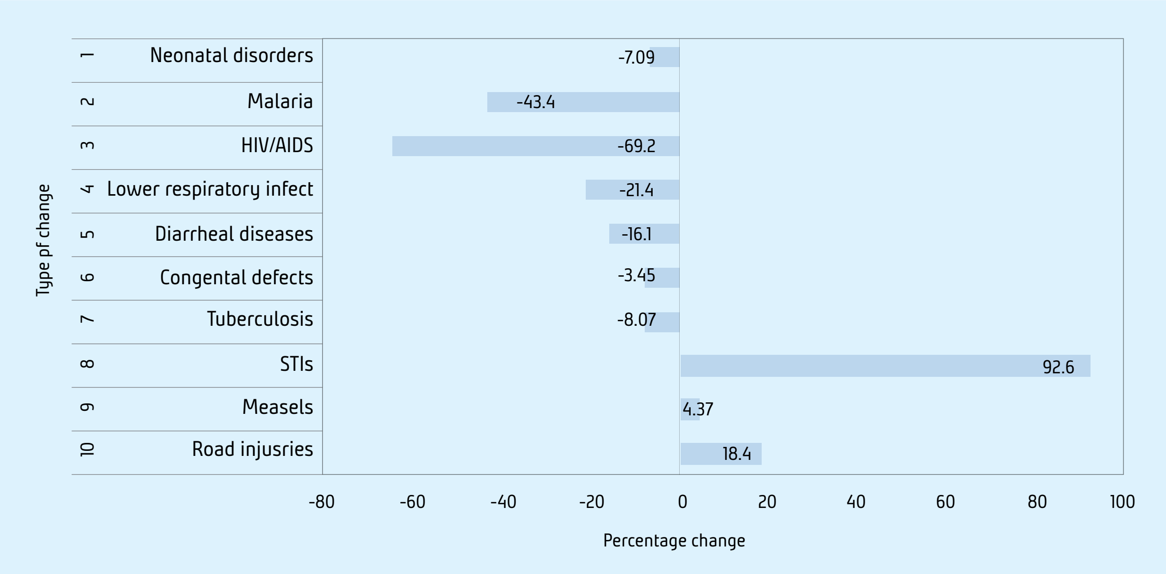
Figure 17. On- and off-budget external financing of health expenditures



Source: World Bank staff construction from previous National Health Account survey reports and MoH 2023.

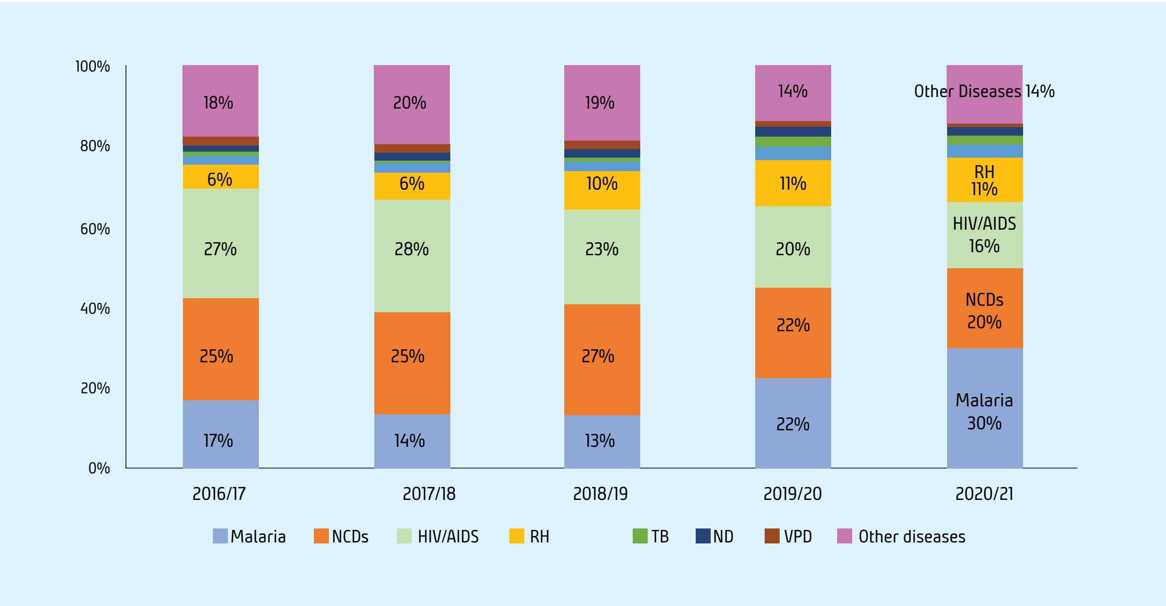
55. Health expenditures from the main financing sources are aligned with the disease burden. The top 10 causes of morbidity and mortality in Uganda between 2009 and 2019 were neonatal disorders, malaria, HIV/AIDS, lower respiratory infections, diarrheal diseases, congenital defects, tuberculosis, sexually transmitted infections, measles, and road injuries. Overall spending patterns in the health sector are consistent with this disease profile. Focusing health expenditures on the leading causes of mortality and morbidity has significantly reduced the prevalence of the most common diseases and conditions. For example, the prevalence of neonatal disorders, malaria, and HIV/AIDS fell by 7.1, 43.4, and 69.2 percent, respectively, during 2009–2019. However, the prevalence of sexually transmitted infections, measles, and road injuries increased over the period, which may reflect inadequate funding, changes in the health system, and contextual factors. Furthermore, while close to 80 percent of total current spending on health goes to communicable diseases, the incidence and burden of non-communicable diseases has been increasing. This trend underscores the need for increased investment in preventing and treating non-communicable diseases, especially given that these are long-term conditions and are costly to manage.

Figure 18. Top 10 causes of morbidity and mortality in Uganda (% change 2009–2019)



Source: World Bank staff construction from IHME (2023).

Figure 19. Total current health expenditures by diseases and conditions, FY16/17–FY20/21



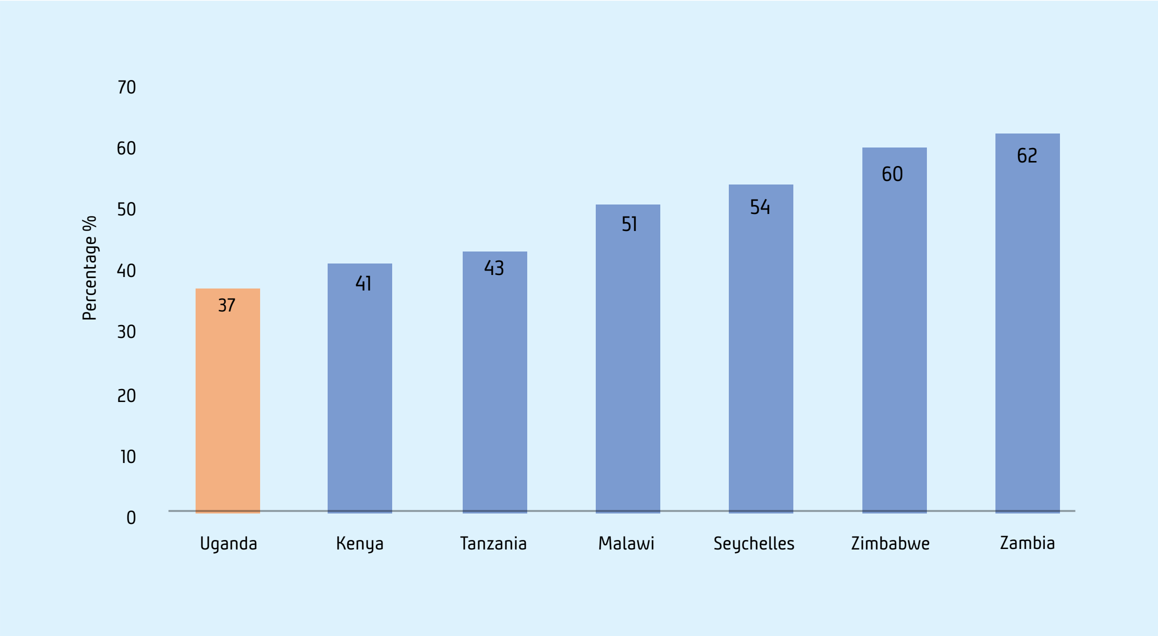
Note:
RH=Reproductive Health, RI=Respiratory Infections, TB=Tuberculosis, Nutritional Deficiencies=ND, VPD=Vaccine Preventable Diseases, NCDs=Non-communicable Diseases (includes injuries)
Source: World Bank staff construction from previous National Health Account survey reports and MoH 2023.

Adequacy of health workforce spending and availability of core health workers

56. The share of public health spending devoted to wages and salaries has increased over the years and is broadly consistent with spending patterns elsewhere in eastern Africa. The wage bill rose from 24 percent of total public spending on the health sector in FY16/17 to 37 percent in FY20/21. Spending on Uganda's health-sector wage bill is close to the levels of Kenya and Tanzania but lower than those of Malawi, Seychelles, Zimbabwe, and Zambia, as well as the recommended range of 45-60 percent for low-income countries.[43] The recruitment of additional health workers has driven the recent increase in personnel costs, but the number of skilled health providers per capita remains lower than what would be expected given Uganda's income level.

43. Chisholm and Evans 2010

Figure 20. The health-sector wage bill as a Share of Total Public Spending on Health



Source: World Bank staff construction from World Bank Health PERs.

57. The increasing share of public health expenditures devoted to wages and salaries reflects the government's commitment to improving health outcomes. Enhancing the productivity and social wellbeing of the population is a key objective of the HCDP,[44] and the 2020-2030 Human Resources for Health (HRH)[45] strategy aims "to develop and maintain a well-performing appropriately skilled health workforce, equitably deployed and accessible at all levels of the health care system, providing quality health services." The HRH interventions that have been implemented have yielded improvements in the health workforce, with the number of staff in-post rising from 59,105 in FY16/17 to 64,808 in FY19/20. However, the number of core health workers in-post as a share of all health-sector staff is below the national standard of 85 percent. In FY19/20, only 74 percent of the required positions for core health workers had been filled. Furthermore, though the total number of health training institutions in Uganda has increased over the years, the annual number of health workers graduating from these institutions has risen only slightly, from 5,911 in FY16/17 to 6,481 in FY19/20.

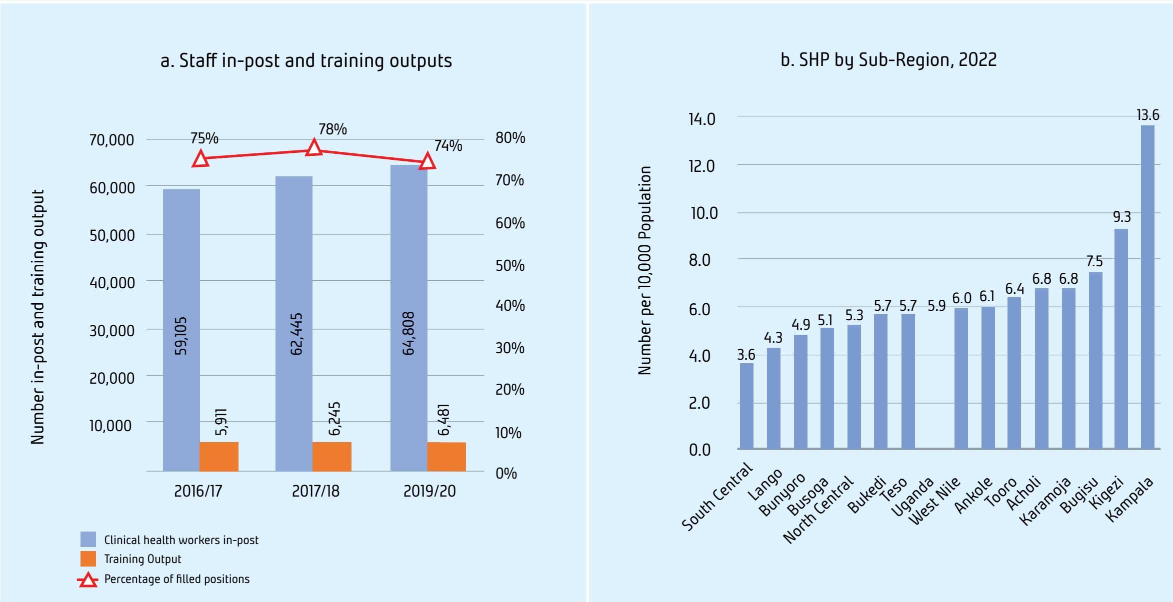
58. The number of skilled health providers[46] in Uganda is critically low, and their distribution is skewed across sub-regions. For example, the Bugisu, Kigezi, and Kampala sub-regions have significantly more skilled health providers per capita than the rest of the country. These differences are due in part to the number, type, and size of health facilities in these sub-regions, as well as their socio-economic characteristics. In 2022, Kampala had 13.6 skilled health providers per 10,000 people, more than twice the national average of 5.9, while no sub-region came close to reaching the target level of 23. Uganda is even further from the SDG target of 44.5 doctors, nurses, and midwives per 10,000 people, underscoring the urgent need to invest in staff training, recruitment, and retention.[47] However, the data only include skilled health providers in the public sector, and the density and distribution patterns would be different if the private sector were included.

59. Despite the low number of skilled health providers, the recruitment of new staff from health-training institutions is very limited. This can be attributed to: (i) inefficiencies in the decentralized

44. NPA 2020
45. MoH 2021a
46. A skilled health provider is an accredited health professional "who has been educated and trained to proficiency in the skills needed to manage normal (uncomplicated) pregnancies, childbirth and the immediate postnatal period and in the identification, management and referral of complications in women and newborns." WHO (2004, p.1). In Uganda, skilled health providers are doctors, clinical officers, midwives, and nurses.
47. In WHO's 2016 Global Strategy on Human Resources for Health, the threshold for aggregate health worker density was set at 44.5 doctors, nurses, and midwives per 10,000 people.

system of recruitment, as some districts fail to fully absorb their wage budgets each year; (ii) weak coordination between the health and education sectors, leading to the training of health workers that the health sector does not need;[48] (iii) a weak system for redistributing existing health workers across districts to optimize the staffing levels and skills-mix; and (iv) ineffective human-resources retention and management strategies for staff working in rural areas. In FY22/23, the authorities raised the salaries and wages for existing health workers by between 41 and 132 percent rather than increasing recruitment, which is likely to affect the number and distribution of health workers. While the health wage bill will increase, the number of health workers in-post will likely remain the same or may even shrink due to attrition.

Figure 21. The availability of essential health workers



Source: World Bank staff construction from HRH system data, and MoH 2020b; 2021a. SHP= Skilled Health Providers

60. High absenteeism rates exacerbate low staffing levels among essential health workers.[49] As many as half of Uganda's health workers may be absent on any given day.[50] A high absenteeism rate can increase the workload of the remaining staff, hindering the provision of timely and high-quality health services and contributing to poor health outcomes, including the high rates of maternal mortality observed in some sub-regions. At 46 percent, Uganda's health-sector absenteeism rate is comparable to that of Kenya (53 percent) but much higher than countries in eastern and southern Africa.[51] The PER estimated the direct annual losses incurred due to absenteeism at USh292 billion (US$78.5 million) while a study by the Uganda Inspectorate of Government estimated the annual loss at USh495 billion (US$133.1 million)[52] Most of these losses are in the form of salary payments to absent healthcare workers.

The availability and adequacy of spending on essential medicines

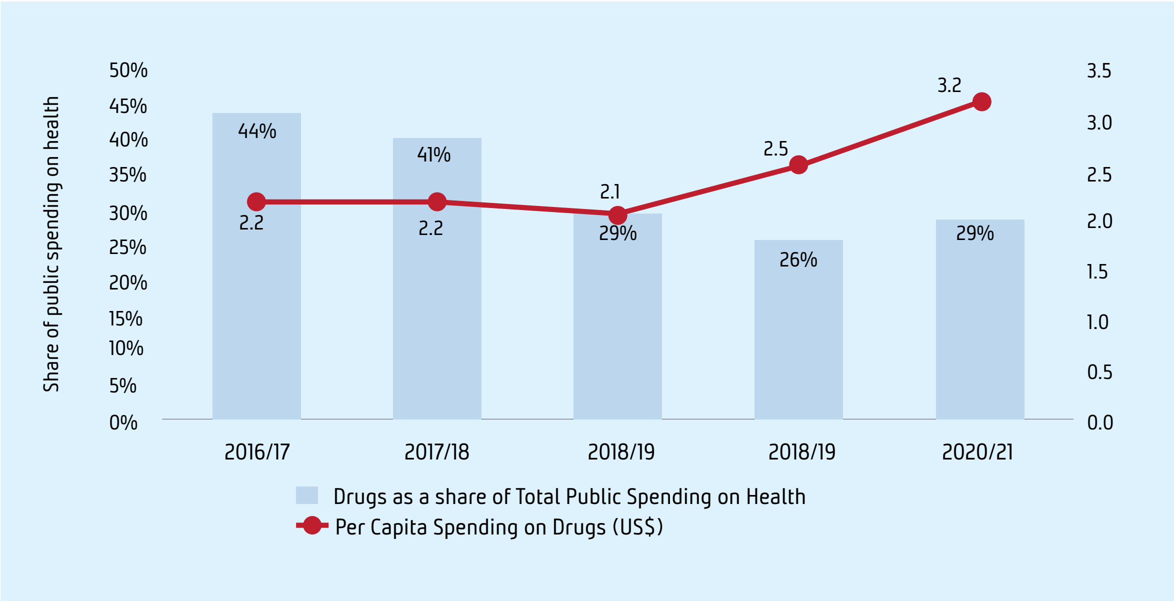
61. Access to high-quality, affordable essential medicines and medical products is vital to improving health and achieving the SDGs. In nominal terms, the government boosted its spending on medicines and medical supplies by about 65 percent between FY16/17 and FY20/21, from USh 265.1 billion (US$77.5 million) to USh 393.6 billion (US$105.9 million)—an annual average increase of about 14 percent. However, spending on medicines and medical products declined from 44 percent of total public health spending in FY16/17 to 29 percent in FY20/21, below the SSA average of 33 percent.[53]

48. According to the HRH Strategic Plan 2020–2030, training institutions produce several types of health workers that are not needed in the health sector.
49. The absenteeism rate is defined as the share of health professionals who are not present for their assigned duties at a given facility during an unannounced visit (Hafez 2020).
50. Wane and Martin 2013
51. Estimates for Madagascar (27 percent), Mozambique (24 percent), Malawi (46 percent), Zambia (16 percent), and Tanzania (14 percent) (Di Giorgio et al 2020; Hafez 2020; World Bank 2018; World Bank 2019b; World Bank 2019c;)
52. Inspectorate of Government 2021
53. Bennett et al. 1997

In FY20/21, the government spent just US$3.2 per capita on medicines and medical products, which is below the US$13-25 recommended for low-income countries by the Lancet Commission on Essential Medicines.[54]

62. **Insufficient supplies of medicines and medical products result in limited access to quality healthcare.** In FY19/20 and FY20/21, only 46 percent of health facilities had more than 95 percent of the tracer medicines and commodities,[55] and in 2022 only 49 percent of health facilities had all essential medicines available.[56] The inadequate supply of medicines and medical supplies is likely due to a combination of low spending and widespread theft. A government study on the extent and cost of corruption in the health sector revealed that the theft of medicines is rampant at public health facilities.[57] Theft leads to direct monetary losses and increases OOP spending, as households are forced to purchase medicines from private pharmacies at exorbitant prices. In addition, the procurement system at the National Medical Stores (NMS) is not linked to the Integrated Financial Management Information System (IFMIS). As a result, contracts for medicines and medical supplies are signed and managed outside the IFMIS, and each contract must be checked manually to ensure consistency with budget allocations—a situation that could lead to financial mismanagement.

Figure 22. The adequacy of public spending on medicines and medical supplies



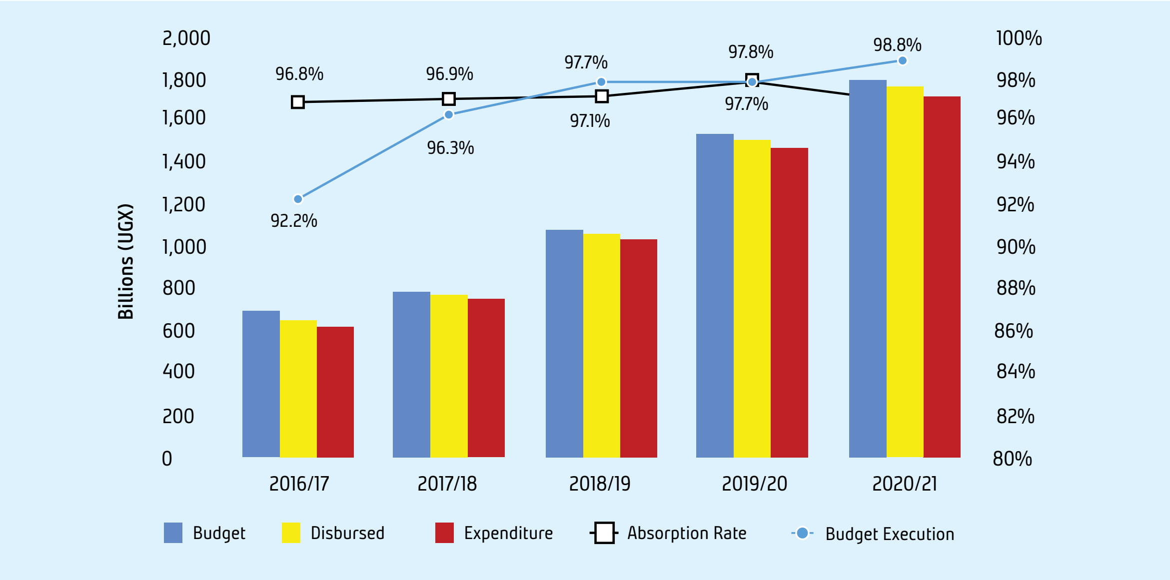
Source: World Bank staff construction from government financial reports and IFMIS data.

54. MoH 2021b
55. MoH and WHO, 2023
56. Inspectorate of Government 2021
57. Inspectorate of Government 2021

3.5 Efficiency and effectiveness of health spending

63. The health budget performed well over the FY16/17–FY20/21 period. Budget performance is assessed by analyzing the disbursement and use of budgeted funds. Between FY16/17 and FY20/21, about 97 percent of budgeted funds were released, and 97 percent of the released funds were used. However, given the inadequate funding in the health sector, policymakers should aim to reach 100 percent disbursement and use of the available funds each year.

Figure 23. Health-sector budget performance



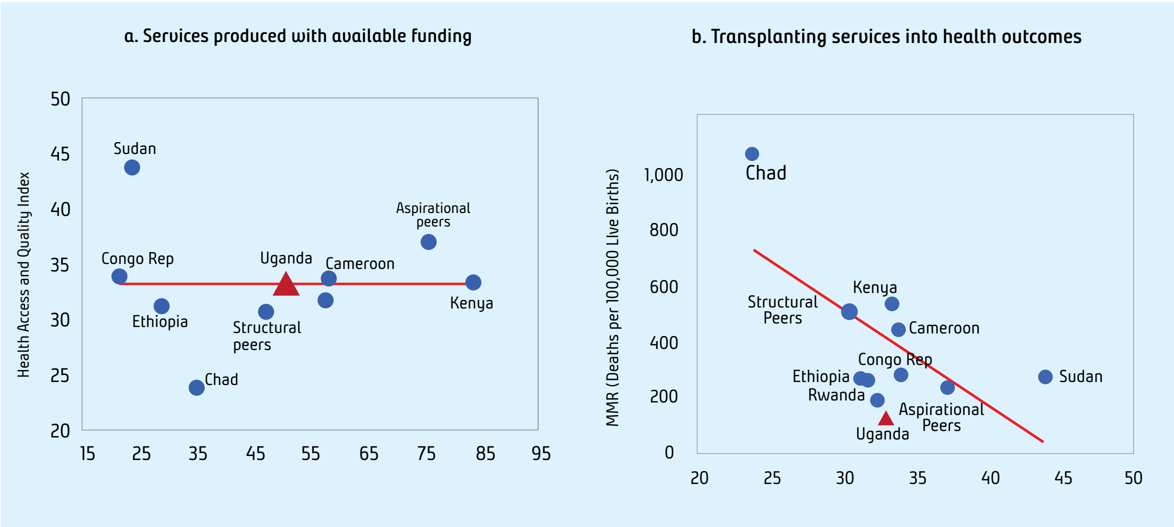
Source: World Bank staff construction from government financial reports and IFMIS data

64. Despite the challenges described above, Uganda uses its limited health resources more efficiently than many peer countries. At US$50.5 per capita, current health spending in Uganda is below the levels of Kenya, Rwanda, Cameroon, and aspirational peers, but the country's score of 32.4 on the Health Access and Quality (HAQ) index is close to the scores of its comparators.[58] This suggests that Uganda is more efficient than Rwanda and Kenya and aspirational peer countries at using its limited resources to produce quality health services. However, this analysis does not consider differences in the cost-of-service provision, the healthcare policies being implemented by the various countries, or the extent of wasted or misused resources. Apart from imported technologies, the cost of local inputs in Uganda is generally low, which likely contributes to its greater expenditure efficiency. Benchmarking across countries also masks variations at the regional and sub-national level.

65. Uganda is more effective than its peers at transforming the available health services into better maternal health outcomes. At 189 deaths per 100,000 live births, Uganda's maternal mortality ratio is better than what its overall HAQ score would predict, and many structural and aspirational peer countries have higher HAQ scores than Uganda but worse maternal mortality ratios. However, within Uganda, maternal mortality ratios vary substantially across sub-regions.

58. Using a benchmarking approach (Hafez 2020), potential inefficiencies were analysed by associating scores from the HAQ index to current health spending per capita. The HAQ index (Fullman et al 2018) is comprised of 32 diseases and conditions that are amenable to health care. The 32 diseases and conditions include maternal and perinatal conditions; infectious diseases; neoplasms; nutritional, endocrine, and metabolic diseases; neurologic disorders; cardiovascular diseases; respiratory and digestive system diseases; genitourinary system diseases; and external causes. Mortality amenable to health care is defined as "those premature deaths that should have not occurred in the presence of timely and effective health care" https://www.paho.org/hq/dmdocuments/2013/annex-basic-indicators-2013.pdf.pdf.

Figure 24. The efficiency and effectiveness of health spending, FY21/22

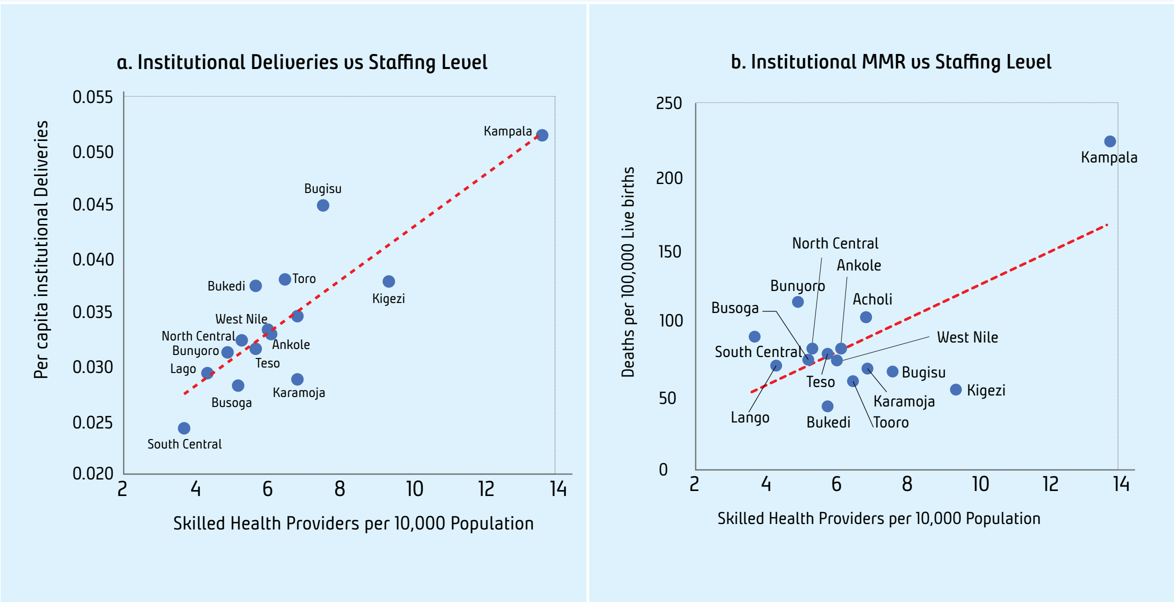


CHE=Current Health Expenditure. MMR=Maternal Mortality Ratio
Source: World Bank staff construction from UBOS (2023), Uganda government financial reports, and World Development Indicators data.

Productivity of the health-sector workforce

66. Sub-regions with greater numbers of skilled health providers generally have higher rates of births in health facilities, but this does not automatically translate into better maternal health outcomes. In the Karamoja and Kigezi sub-regions, the rate of births in health facilities is low despite relatively high numbers of skilled health providers. However, Bukedi, Tooro, and Kigezi have even higher numbers of skilled health providers and lower maternal mortality ratios. Kampala and Acholi have relatively high numbers of skilled healthcare providers and relatively high maternal mortality ratios. Overall, these results suggest differences in productivity of health workers and the uneven quality of maternal healthcare services across the sub-regions.

Figure 25. The productivity of skilled health providers, FY21/22



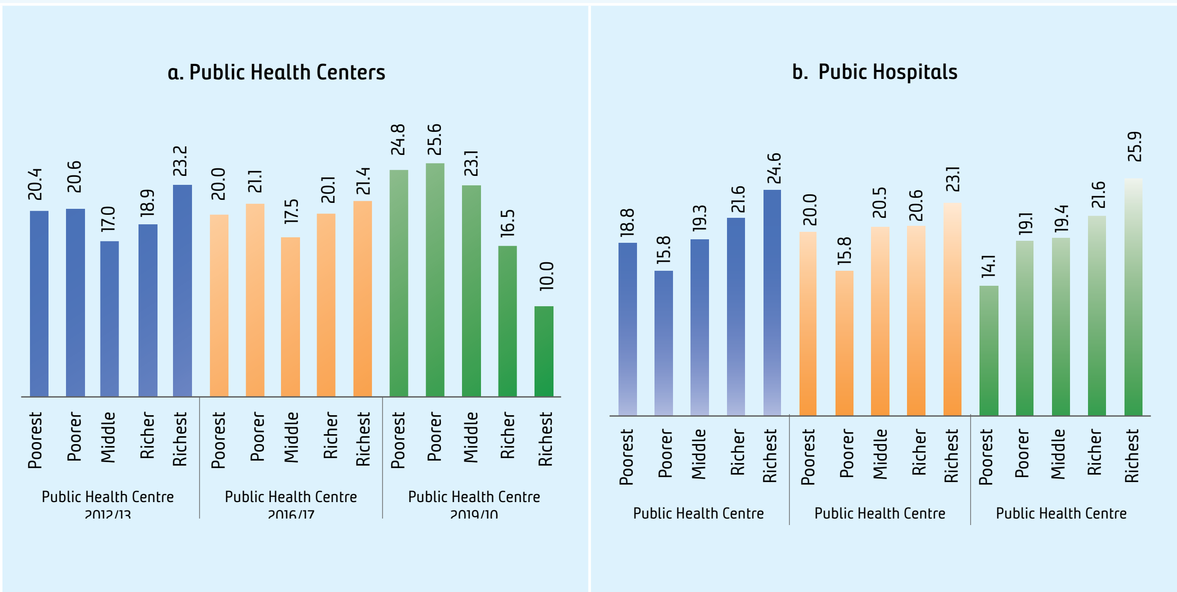
MMR=Maternal Mortality Ratio
Source: World Bank staff construction from HRH and Maternal and Perinatal Death Surveillance and Response (MPDSR) data.

3.6 Equity indicators: benefit incidence and financial risk protection

Trends in benefits received compared to health needs

67. Over the years, the distribution of health benefits at public health centers has become increasingly pro-poor, but this is not the case at large public hospitals. A benefit-incidence analysis shows that poor households benefit the most from public health centers, whereas wealthier households benefit the most from public hospitals. The share of benefits of public hospitals accruing to the poorest households fell from 20 percent in FY16/17 to 14.1 percent in FY19/20. This pattern indicates that the distribution of health benefits at public hospitals is inequitable. Therefore, there is need for the government to remove barriers to access public hospitals among the poor households. Considering that most poor households in Uganda access health services from lower levels of the health system (i.e. health centers), providing basic hospital services at lower-level facilities and enhancing service quality could improve the equity of healthcare access.

Figure 26. Trends in benefit incidence: public health centers and hospitals

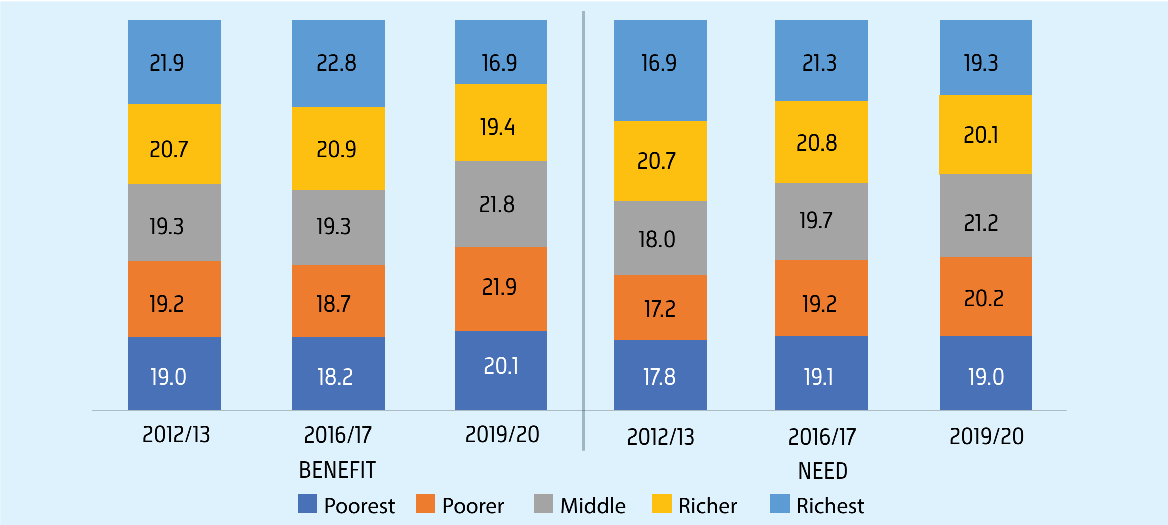


Source: World Bank staff computations based on UNHS FY12/13, FY16/17 and FY19/20 datasets

68. Between FY12/13 and FY19/20, the health needs and benefits of poor households increased, while the health needs and benefits of the wealthiest households declined. These trends indicate that the policies, programs, and interventions that have been implemented in Uganda's health sector over these years have progressively benefited poor households. However, it is important to note that benefit-incidence analysis does not account for the quality of care provided at the health facilities. Service availability and readiness at most of the public health facilities in Uganda are very low. In 2022, the general service readiness index score for public health facilities in Uganda was 0.55, well below the scores at private for-profit (0.63) and private nonprofit facilities (0.68).[59] Greater readiness at private health facilities explains why wealthier households increasingly seek health care from these facilities. In rural areas, the general service readiness index score was 0.55, compared to 0.66 in urban areas,[60] highlighting the need to increase investments in the quality of health services at public health facilities in rural areas.

59. MoH and WHO (2023)
60. MoH and WHO (2023)

Figure 27. Comparing total benefits with total needs: FY12/13–FY19/20



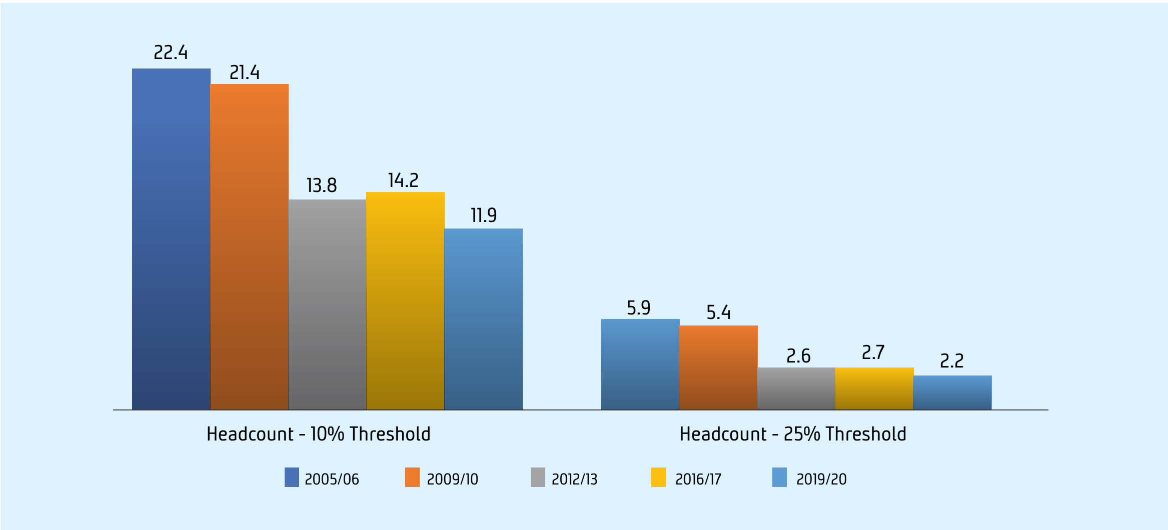
Source: World Bank staff computations based on UNHS 2012/13, 2016/17 and 2019/20 datasets

Catastrophic health spending

69. The share of households incurring catastrophic health expenditures (CatHE) has declined over the last decade, yet 4.9 million people still faced CatHE in FY19/20. These trends are consistent both at the 10 percent and 25 percent thresholds for CatHE. The share of households that incurred CatHE by spending 10 percent of their total budget on health fell from 22.4 percent in FY05/06 to 11.9 percent in FY19/20, with the latter figure representing 1.07 million households and 4.9 million people.[61] However, the declining incidence of CatHE does not necessarily imply greater financial protection for poor households. Instead, it may also imply that some poor households forgo health care because they: (a) cannot afford to pay for the health services, (b) fear contracting a contagious disease if they go to a health facility, or (c) perceive the quality of services at the health facility to be poor. A 2014 study in Liberia found that the percentage of households forgoing healthcare in was four times higher than the percentage of households incurring CatHE.[62] Conducting a similar study on forgone health care in Uganda would help to: (a) evaluate how many households cannot or do not access health services when in need, (b) understand the reasons for forgoing health care, and (c) obtain a deeper understanding of the impact of OOP spending on health on the equity of access to health care and financial risk protection.

61. In 2019/20, there were 8,974,142 households in Uganda with a national average household size of 4.6 (UBOS, 2020), which implies that 11.9 percent is equivalent to 1.07 million households and abotu 4.9 million people.
62. Gabani and Guinness (2019)

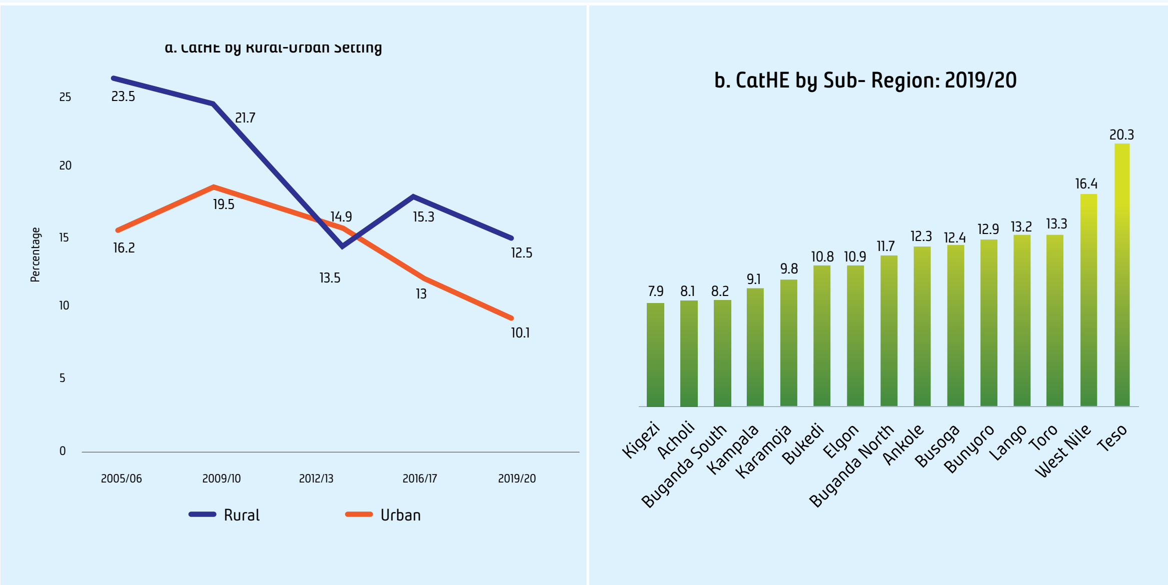
Figure 28. Trends in the incidence of CatHE



Source: World Bank staff computation based on the UNHS 2019/20. Findings for 2005/06-2016/17 (Kwesiga et al 2015; 2020).

70. The incidence of CatHE has fallen both in rural and urban areas, but it remains more prevalent in rural areas. The incidence of CatHE also varies across sub-regions. The highest incidence of CatHE in 2019/20 was in the Teso sub-region, followed by West Nile and Toro, respectively. The sub-regions with the lowest incidence of CatHE in 2019/20 were Kigezi and Acholi. In Teso, the incidence of CatHE was 2.6 times the incidence in Kigezi. Of Uganda's 15 sub-regions, seven had CatHE rates above the national average of 11.9 percent in FY19/20. In some sub-regions, households access a large share of their health care from private-for-profit providers; and therefore, the observed disparities may reflect the distribution of service providers across the country. The disparities can also be explained by differences in the cost of healthcare, availability of pre-payment arrangements, and income levels. Nationwide, households most likely to incur CatHE were those below the poverty line, those with children under age five, and those headed by people over age 60. In general, these results call for policy makers to consider variations between rural and urban areas and across sub-regions when designing health programs and interventions.

Figure 29. Incidence of CatHE by rural and urban setting and sub-regions at the 10 percent threshold



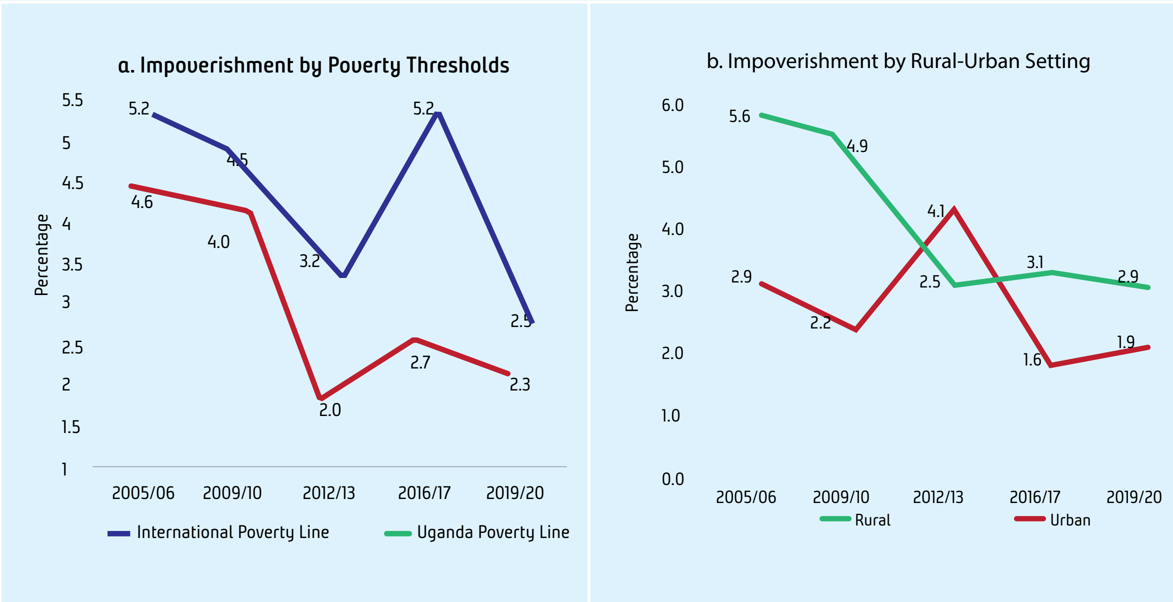
Source: World Bank staff computation based on the UNHS 2019/20. Findings for 2005/06-2016/17 (Kwesiga et al 2015; 2020).

Impoverishment due to health spending

71. The incidence of households falling below the poverty line due to OOP spending on health has declined over the years. Based on Uganda's national poverty line, the share of households that were impoverished due to OOP spending on health fell from 4.6 percent in FY05/06 to 2.3 percent in FY19/20. When the international poverty line is used, these shares are 5.2 percent and 2.6 percent, respectively. In FY19/20, OOP spending on health pushed about 206,405 households (949,464 people) below the national poverty line, while 233,328 households (1.1 million people) fell below the international poverty line.

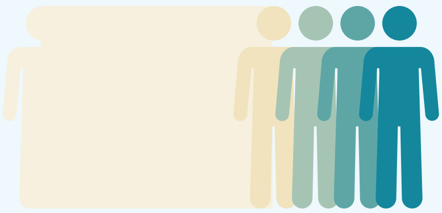
72. OOP spending on health continues to impoverish a large share of rural households. Based on the international poverty line, the share of rural households impoverished due to OOP spending on health decreased from 5.6 percent in FY05/06 to 2.9 percent in FY19/20, representing 181,374 households or 870,597 people. Over the same period, the share in urban areas fell from 2.9 to 1.9 percent, representing 51,677 households or 206,709 people.[63] These findings imply that though impoverishment due to health spending has reduced over the years in Uganda, there is urgent need to further enhance financial risk protection, especially for rural households.

Figure 30. Incidence of impoverishment due to OOP spending on health



Source: World Bank staff computation from UNHS 2019/20. Findings for 2005/06-2016/17 (Kwesiga et al 2015; 2020). OOP=out-of-pocket.

63. In 2019/20, there were 6,254,292 households in rural areas and 2,719,850 households in urban areas in Uganda. The average household sizes in rural and urban areas were 4.8 and 4.0, respectively (UBOS, 2020).



Based on Uganda's national poverty line, the share of households that were impoverished due to OOP spending on health fell from 4.6 percent in FY05/06 to 2.3 percent in FY19/20.

RECOMMENDATIONS

4. RECOMMENDATIONS TO IMPROVE SPENDING TO GENERATE BETTER HEALTH OUTCOMES

72. The government and other stakeholders can implement a range of policy actions and interventions to address the challenges identified above. Six high-level recommendations and corresponding actions are summarized in Table 8.

Strengthen the health-financing system through increased resource mobilization, risk-pooling, strategic purchasing of health services, and improvements in public investment management and public financial management

Strengthen public-private partnership for health through performance agreements with private facilities.

Increase investments in primary health care, health promotion, and disease prevention while optimizing investments in specialized healthcare.

Improve the availability and productivity of the health workforce by streamlining recruitment and deployment

Increase access to efficacious and affordable medicines and medical commodities

Improve healthcare service quality and client engagement

Table 8. Summary of key recommendations and required actions

Recommendation	Required Action
1. Strengthen the health-financing system through increased resource mobilization, risk-pooling, strategic purchasing of health services, and improvements in public investment management and public financial management	a. Increase advocacy and dialogue on the inadequate government funding to the health sector. b. Increase government spending on health and implement fiscal sustainability plans to: (i) mitigate the uncertainty around external financing, and (ii) reduce the burden of OOP health financing spending by households. c. Strengthen alignment of donor financing to government priorities by: (i) negotiating on-budget external support, (ii) operationalizing accountability mechanisms like compacts on the pooling of donor funds and aid effectiveness between the government and its development partners. d. Strengthen strategic purchasing in the health sector by: (i) sustaining and scaling up the implementation of results-based financing mechanisms; and (ii) implementing the proposed national health insurance scheme.[64] e. Ensure that the revised formula for allocating nonwage recurrent grants for primary healthcare facilities is fully implemented and continually monitored to enhance its positive impact on equity and efficiency. f. Ensure an equitable distribution of health workers, medicines, infrastructure, and medical equipment. g. Strengthen the public financial management system.
2. Strengthen public-private partnership for health through performance agreements with private facilities.	As part of the strategic-purchasing agenda: (i) update existing performance agreements with private nonprofit providers; (ii) establish performance agreements with new private nonprofit providers; and (iii) establish formal performance agreements with private for-profit providers.
3. Increase investments in primary health care, health promotion, and disease prevention while optimizing investments in specialized healthcare.	a. Prioritize spending on primary healthcare, health promotion and disease prevention to reduce the risks and cost of curative care, and to decongest hospitals and other referral facilities. b. Improve the functionality of existing health facilities by enhancing the provision of staffing, medicines, and equipment rather than constructing new facilities. c. Carefully roll out specialized health services through a constrained regional approach.

64. A national health insurance scheme could help to pool resources that households incur through OOP spending on health, enhance strategic purchasing, and promote transparency and accountability in health service provision. However, a wealth of evidence has shown that health insurance does not generate significant resources for health. Further, in most cases, there is inadequate health insurance coverage for the poor and vulnerable population.

4.	Improve the availability and productivity of the health workforce by streamlining recruitment and deployment	a. Enhance the training of health workers by (i) adopting competence-based training approaches; and (ii) streamlining in-service training, mentorship, supervision, and accreditation of health workers, training institutions, and health facilities. b. Enhance the use of performance contracts. c. Support local governments that have limited capacity to recruit staff and redistribute staff across sub-regions. d. Increase the personnel budget to reflect staffing needs. e. Implement the Auditor General's recommendations for addressing discrepancies in staffing and payroll management.
5.	Increase access to efficacious and affordable medicines and medical commodities	a. Increase funding for essential medicines to reduce household spending on health. b. Strengthen the procurement and distribution system for medicines and patient management information systems, including the online requisition system at the NMS, and provide sufficient time for local authorities to verify deliveries from the NMS. c. Integrate the procurement system at the NMS with the IFMIS at the Ministry of Finance. d. Conduct a study foregone healthcare in Uganda and estimate the overall impact of OOP spending on the equity of access to healthcare and financial risk protection.
6.	Improve healthcare service quality and client engagement	a. Scale up quality-improvement interventions at all health facilities. b. Strengthen client-centered grievance-redress systems, implement client-satisfaction surveys, and record patient-reported outcomes.

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