WORLD BANK GROUP

UGANDA ECONOMIC UPDATE

More Effective, Efficient & Equitable Public Spending for Education will help Uganda realize its potential.

22nd Edition
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1818 H Street NW
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Telephone: 202-473-1000
Internet: www.worldbank.org

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Acronymms and Abbreviations

BOU	Bank of Uganda
BTVET	Business, Technical and Vocational Education and Training
CFR	Charter of Fiscal Responsibility
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EMIS	Education Management Information System
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GoU	Government of Uganda
IGFTR	Intergovernmental Fiscal Transfer Reforms
IMF	International Monetary Fund
LAYS	Learning Adjusted Years of Schooling
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning, and Economic Development
NDP III	Third National Development Plan
PLE	Primary Learning Examination
RTI	Research Triangle Institute
SPA	School Performance Assessment
STEM	Science, Technology, Engineering and Mathematics
STR	Student Teacher Ratio
UBOS	Uganda Bureau of Statistics
UgIFT	Uganda Intergovernmental Fiscal Transfer Reform Program
UGX	Ugandan Shilling
UPE	Universal Primary Education
USE	Universal Secondary Education

Foreword

The Ugandan economy continues to recover from multiple shocks and a challenging global environment. Economic activity has been robust due to strong industrial activity and improved performance of the services sector. Although agricultural production was affected by adverse weather conditions, the sector recorded strong growth. Spillovers from the war in Ukraine led to higher food and fuel prices that broadened across other goods and services, contributing to a surge in inflation in the second half of 2022. Inflation began to decelerate in February 2023 and has since remained below the Bank of Uganda's target rate of 5 percent due to its policy actions. Notwithstanding the resilience of the economy, the country's growth trajectory is fragile. Recent global market turmoil and potential spillovers from the conflict in Sudan pose new policy challenges.

Uganda will soon enter a pivotal stage in its development path where human capital – the knowledge, skills, and health that people accumulate throughout their lives – has the potential to be a central driver of the country's progress. Yet even as Uganda's population is projected to increase by 60 percent in the next 20 years, the country has been underinvesting in its human capital. The World Bank estimates that at current levels of investment in human capital, a child born in Uganda today will grow up to be only 38 percent as productive as he or she could be with complete education and full health. For Uganda to benefit from a demographic dividend, the country will need not only substantial resources to serve a larger population, but it must further elevate its investments in social services to improve the current poor levels of access and quality. In addition, providing equal access to human capital development is key to addressing the inequality of opportunities and making future growth more inclusive.

This 22nd edition of the Uganda Economic Update focuses on a critical component of Uganda's human capital development: the quality, efficiency, and effectiveness of public spending on education. Spending on education has been consistently low and inefficient in Uganda, contributing to inadequate and inequitable access as well as poor learning outcomes. Although the scale of the challenge may seem daunting, Uganda has many achievements to build on: one of the first countries to embrace the idea of universal primary education; a leader in employer-led skills development; and a world leader in its generosity toward refugees, including in their human development. The World Bank is ready to support Uganda's efforts to seize this critical and time-bound opportunity by investing more, investing smarter, and investing now in the future productivity of its people.

Keith Hansen

Country Director
Kenya, Rwanda, Somalia, and Uganda
Africa Region

Acknowledgements

The Uganda Economic Update (UEU) analyses economic and structural issues in the Ugandan economy and situates them in a long-term domestic and global context. It is intended for a wide audience, including policymakers, business leaders, financial-market participants, think tanks, non-governmental organizations, and the community of analysts and professionals engaged in the Ugandan economy. The publication intends to foster well-informed policy analysis and debate regarding the key challenges facing Uganda as it strives to achieve inclusive and sustainable economic growth.

This 22nd edition of the UEU was prepared by a team that included Sashana Whyte, Rachel K. Sebudde, Shawn Powers, Aziz Atamanov, and Daniel Lukwago (consultant). The team is grateful to Philip Schuler, Marek Hanusch, Tamoya Christie, and Shinsaku Nomura for their input and guidance on the structure and messages presented in the report. The UEU 22 was edited by Sean Lothrop. Pearl Namanya provided logistical support, while Bernard Tabaire managed the communications strategy and Karina Acevedo provided invaluable research assistance on the analysis of education expenditures. The Uganda Country Team provided valuable feedback, and the overall guidance provided by Abha Prasad (Practice Manager, Macroeconomics, Trade and Investment) and Mukami Kairuki (Country Manager) is gratefully acknowledged. Finally, the team would like to thank the staff of the Ministry of Finance, Planning, and Economic Development and the Ministry of Education and Sports for their commitment and productive collaboration.

Executive Summary

Uganda's economy continued its recovery from multiple external shocks, despite a turbulent global environment.

Uganda's real GDP growth rate rose from 4.6 percent in FY2022 to 5.2 percent in FY2023[1], but domestic challenges persist, and external conditions remain challenging. The services sector accounted for half of GDP growth, led by professional services, administrative services, and accommodation and food services. Agricultural output also rose by 4.8 percent during the period, driven by livestock and fishing, while irregular rainfall continued to adversely affect crop production. Growth in the industrial sector slowed to 3.5 percent due to declining mining and quarrying activity. High-frequency indicators suggest economic activity will remain solid through the end of the calendar year.

Tighter monetary policies have helped ease inflationary pressure. Influenced both by global and domestic factors[2], headline inflation rose from 3.7 percent in FY2022 to 8.8 percent in FY2023, well above the central bank's target rate of 5 percent. Rising prices for nonfood goods contributed 46 percent to the total increase in inflation in FY2023, as the shock of the external crises compounded the effects of adverse weather conditions, while food, energy, fuel, and utility prices also increased substantially during the year. The inflation rate began to decline in February 2023 and reached 2.6 percent in November. Inflation is expected to continue easing due to softening international commodity prices, especially for energy, as external shocks abate, and supply-chain disruptions unwind. The relative stability of the Ugandan shilling also contributed to disinflation.

Strong and sustained inflows of foreign direct investment (FDI) helped finance a large current-account deficit of 7.9 percent of GDP. The current-account deficit (including grants) remained broadly unchanged from FY2022, as a surge in imports offset the recovery of goods exports and tourism inflows. Driven by the resumption of gold exports and a marginal recovery in travel inflows, exports increased by 2.7 percentage points of GDP. Although spending on imports fell by 8.3 percent, the shilling's real depreciation during the second half of the year caused import costs to rise by 2.4 percentage points of GDP, offsetting the sizable growth of exports. The current-account deficit was financed mainly through FDI in the oil and gas sector and to a lesser extent by public-sector borrowing.

Monetary tightening slowed the growth of credit to the private sector. After expanding by 8.9 percent in FY2022, private-sector credit growth declined to 3.0 percent in FY2023. Slowing credit growth primarily reflected the rising cost of credit, as the central bank raised rates to manage inflationary pressures. While lending to the public sector risks crowding out private-sector credit and slowing economic growth, personal loans and commercial lending to the transport, trade, and mining and quarrying sectors continued to increase in FY2023.

The central government's fiscal deficit reached 5.6 percent of GDP in FY2023, down from 7.4 percent in the previous fiscal year. Total central-government revenue rose to 14.2 percent of GDP, albeit well short of the policy target of 16-18 percent.[3] Improved tax administration pushed tax revenue from 13.4 percent of GDP to 13.7 percent, with increased collections of pay-as-you-earn tax, taxes on rental income, and casino taxes offsetting a decline in revenue from corporate income tax and withholding tax. Meanwhile, total spending fell from 21.5 percent of GDP to 19.9 percent. Development spending, much of which remains focused on megaprojects, fell from 7.9 percent of GDP to 5.8 percent. While part of this decline was planned as part of the fiscal consolidation agenda, development spending was also undercut by execution challenges both in domestically and externally financed projects.

1 The fiscal year in Uganda runs from July to June.

2 Adverse weather conditions, high energy and food prices and supply constraints

3 This target is defined in the Domestic Revenue Mobilization Strategy.

A lady pours peas for sale into a basket in Nakasero Market. Derrick Senyonyi, 2023.

Outlook, Risks, and Challenges

The medium-term outlook remains broadly positive. Medium-term growth prospects hinge on the anticipated development of the oil and gas sector, which is expected to push the annual GDP growth rate to well above 6 percent in the medium term. The continued implementation of governance and product-market reforms designed to boost agri-business, encourage trade, and foster private investment is also expected to contribute to medium-term growth. The implementation of the Domestic Revenue Mobilization Strategy—particularly the reforms to tax expenditures and value-added taxes—will support fiscal consolidation on the revenue side. Meanwhile, fiscal spending aimed at easing constraints on growth, including investments in energy and transport infrastructure, should help revive private investment, boost agricultural production, and energize the light manufacturing sector.

Risks to the medium-term outlook are substantial. Key risks include a further deterioration of global economic conditions due to intensifying geopolitical tensions, an escalation of the conflict in the Middle East, slower-than-expected growth in China, a slowdown in economic activity in the United States, and/or a renewed rise in commodity prices. External economic shocks could necessitate a return to monetary policy tightening in Uganda, which would slow the recovery of business activity and household income. In addition, weather-related shocks could further depress agricultural output and disrupt the mobility of goods and people. Domestic policy risks include the slow or incomplete implementation of structural reforms in key areas such as private-sector development and climate-change adaptation in the agricultural and tourism sectors. On the upside, rapid disinflation in advanced economies could lead to looser monetary policies, easing financial constraints in global markets.

Assessing the Quality, Efficiency, and Effectiveness of Public Spending in Education

With a young and growing population, Uganda has a one-time opportunity to capture a demographic dividend, but success is not guaranteed. As improving economic, health, and social conditions lower first mortality rates and then fertility rates, countries pass through a brief window in which the size of the working-age population (ages 15-64) far exceeds the dependent population of children and the elderly. During this demographic transition, a country can leverage its changing age structure to accelerate growth, but only if its workers are able realize their productive potential. Uganda is a "pre-dividend" country, meaning 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 invest in human capital.

According to the Human Capital Index (HCI), a Ugandan child born today will be only 38 percent as productive during his/her lifetime as he or she could have been with the right investments in human capital. The HCI combines health indicators such as the child survival rate, the stunting rate, and the adult survival rate

Students at a secondary school within Kampala City Centre reading books. Derrick Senyonyi, 2023.

with education indicators such as average years of schooling and average learning levels. Based on international evidence, these indicators can be used to estimate the productivity of future workers against a benchmark of complete education and full health. Uganda's low levels of human capital derive primarily from poor educational outcomes, including one of the lowest learning-adjusted years of schooling (LAYS) among all economies in the HCI. Ugandan children can expect to complete 6.8 years of pre-primary, primary, and secondary school by age 18, but when scaled for learning quality this falls to just 4.3 LAYS—a gap of 2.5 years.

Uganda's public education spending has been consistently low in recent decades, falling well below international benchmarks and average expenditures in other East African countries. Policies aimed at ensuring universal access to primary and secondary schooling have greatly expanded education opportunities. However, the government will need to increase public spending on education to achieve its goals while keeping pace with population growth, as households still bear a disproportionate share of the burden of education financing.

Inadequate and inefficient public spending on education contributes to low service quality, unequal access, and subpar learning outcomes. Uganda's education outcomes as measured by LAYS are below what would be expected even for a country with its low level of education spending, highlighting inefficiencies in the education system. Most children enrol in primary education, but completion rates are low, and learning outcomes are poor. The rate of grade repetition at the primary level is high—especially in the first grade—due mainly to the under-provision of early childhood education. Most children leave school before completing secondary education, and most of those who drop out do so for cost-related reasons, though there are additional gender-specific barriers such as pregnancy among girls. Public spending in education is pro-poor at the primary level but becomes increasingly regressive as students progress through the system, with postsecondary education virtually inaccessible to the poorest households.

A massive increase in public education spending will be necessary for Uganda to meet its long-term development objectives, reap a demographic dividend, and ensure equitable access to high-quality education. This report presents five recommendations, each with a set of short, medium, and long-term actions the government of Uganda can take, together with other stakeholders and development partners, to achieve a demographic dividend. To address the challenges facing Uganda's education sector and enable the country to achieve its development goals, policymakers should:

- Gradually increase education spending to reflect an "expansion with quality" scenario that prioritizes investments in basic education and skills over further increases in tertiary education.
- Introduce one year of high-quality pre-primary education provided through the public education system.
- Comprehensively reform the teaching profession to improve compensation, strengthen accountability, and provide greater support for teachers.
- Leverage technological solutions to address other systemic inefficiencies.
- Reduce out-of-pocket education costs and other barriers to access.

PART 1

State of the Economy

Busy, well maintained road transport on Ntinda Stretcher Road, Derrick Senyonyi, 2023.

1.1 Recent Economic Developments

Global economic growth is projected to remain weak in 2023 due to the lingering effects of multiple crises.

1. Global economic growth is expected to reach 2.5 percent in 2023—up 0.4 percentage points from the June 2023 forecast. The better-than-previously-projected growth for 2023 reflects the economic performance of the United States as household consumption continues to recover and labour markets remain resilient. Global inflation is projected to fall to 6.9 percent in 2023, but rates will likely remain above target in many advanced economies due to the appreciation of the US dollar against major currencies, lower foreign-exchange reserves, and a delayed pass-through effect of higher energy and commodity prices.

2. The conflict in the Middle East has increased economic uncertainty and heightened the risk of food insecurity. In the third quarter of 2023 (July to September), the World Bank commodity price index increased by 5 percent, driven by an 11 percent surge in oil prices after OPEC+ decided to cut supply. The World Bank's commodity market outlook (October 2023) indicates that the conflict in the Middle East will have a limited impact on commodity prices—assuming hostilities remain contained—with prices ultimately being driven by fundamental demand and supply factors. However, the conflict may intensify food insecurity in the Middle East by disrupting the food supply chain.

3. Multiple internal and external factors are disrupting Africa's economic recovery.[5] In East Africa, economic output is expected to grow by 1.9 percent in 2023, down from 3.6 percent in earlier forecasts, as the conflict in Sudan has greatly reduced labor supply and destroyed the country's industrial base. Economic activity in Sub-Saharan Africa (SSA) is projected to grow by 2.5 percent in 2023, 0.7 percentage points below the level forecast in June 2023. The downward revision reflects high (albeit declining) inflation rates, tight global and domestic financial conditions, slow global growth, and increased conflict and violence within the region. Adverse weather conditions are also weighing on economic growth in SSA, including rising flood risks in the coastal areas of East Africa.

4. Despite efforts to strengthen fiscal management, average debt levels in SSA remain high. According to the October 2023 edition of Africa's Pulse, the region's median public debt-to-GDP ratio fell only slightly from 59 percent in 2021 to 57 percent in 2022.[6] Meanwhile, a shift in the composition of the region's debt toward non-concessional borrowing has increased debt-service costs, which rose from 16 percent of total revenue in 2012 to 31 percent in 2022, constraining the available fiscal space and increasing vulnerability to shocks. Public gross financing needs remain above historical levels at about 11 percent of GDP in 2020–22 and are projected to remain at 10 percent over the next five years. Chad, Ethiopia, Ghana, and Zambia have resorted to debt restructuring to resolve debt-sustainability issues and rebuild fiscal space.

Growth has been broad-based, with rising output in the agricultural, industrial, and service sectors

5. Despite unfavorable global and domestic developments, Uganda's economy has maintained its recent growth momentum. Real GDP growth reached 5.2 percent in FY2023, below the 5.7 percent projected in the June 2023 edition of the Uganda Economic Update. This lower growth outturn reflected slowing economic activity in the second and third quarters of the fiscal year, driven by lower aggregate demand as the economy grappled with tighter credit conditions, the Ebola outbreak, and adverse weather conditions. Sectoral data show that economic growth mainly came from the agricultural and service sectors on the supply side and from consumption and investment on the demand side.

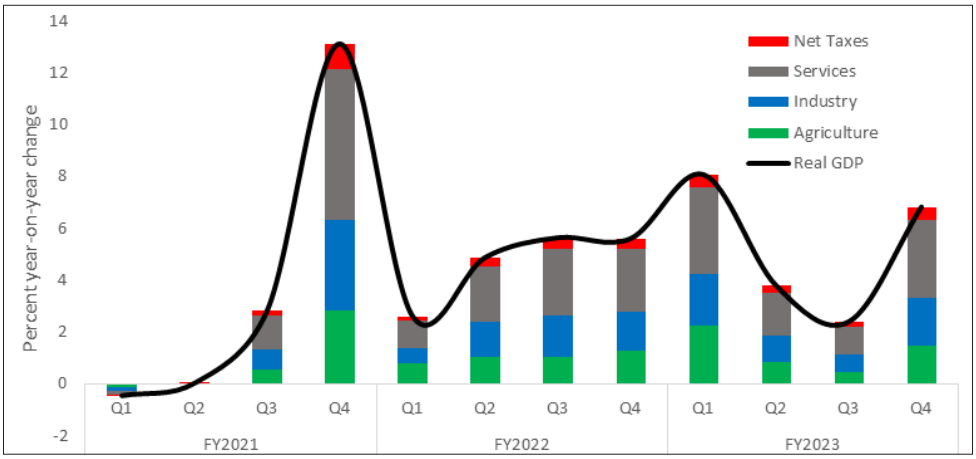
6. Despite temporary disruptions in tourism during the first half of the fiscal year, a strong expansion in services drove supply-side growth. Supported by the gradual recovery of travel after the Ebola outbreak and increased business activity, the service sector registered a tremendous broad-based acceleration over the fiscal year, with accommodation and food services, professional services, and administrative services increasing by an average of 12.4, 28, and 17 percent, respectively. Meanwhile, industrial output rose by 3.5 percent, with the growth of construction (4.8 percent), water (4.2 percent), and manufacturing (3.1 percent)

4 These include COVID-19 pandemic, Russia's invasion of Ukraine, and soaring consumer costs.

5 These include adverse weather conditions, rising conflict and violence, rapidly accelerating inflation, higher borrowing costs, and softer demand in major export markets.

6 Debt levels in Africa increased from 29 percent of GDP in 2012 to 52 percent in 2019 driven by persistent fiscal deficits and slowing growth.

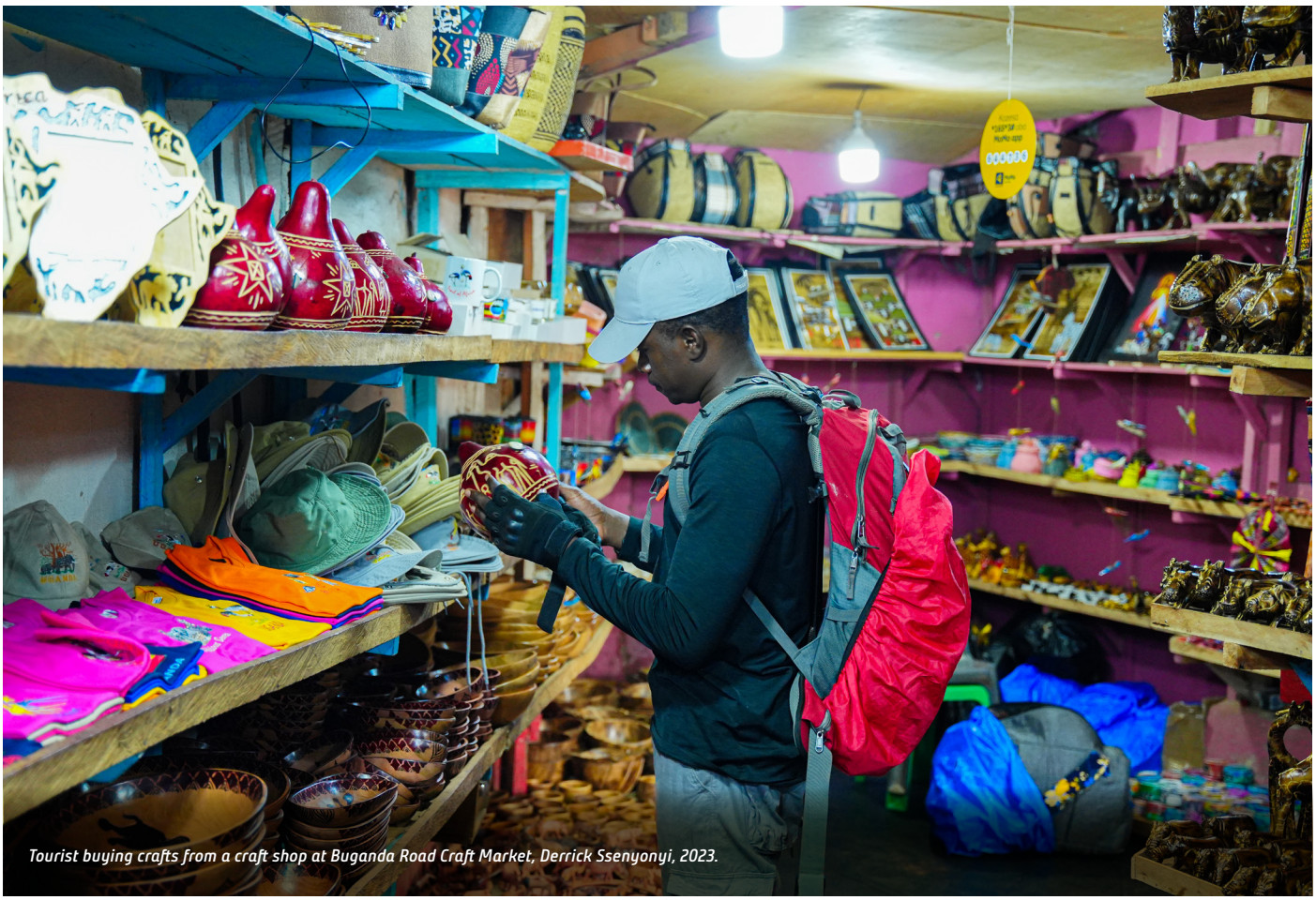
Figure 1: Growth remained relatively strong despite adverse weather conditions and weak mining output



Source: Uganda Bureau of Statistics (UBOS)

accounting for more than 80 percent of the sector's expansion. Unfavorable weather notwithstanding, the agricultural sector grew by 4.8 percent, making a significant contribution to overall growth (Figure 1).

7. Private consumption and investment drove growth on the demand side. Private consumption was the largest contributor to growth at 3.6 percentage points, while government consumption contributed 0.5 percentage points (Table 1). The oil and gas sector drove the increase in total investment, which contributed 1.4 percentage points to growth. The contribution of public investment was positive but marginal at 0.5 ppt, due in part to the slow execution of public infrastructure projects. Private investment increased by 8.6 percent year-on-year (y/y), adding 1.0 to growth. A strong recovery in key sectors such as services, construction, and manufacturing supported the strong performance of private investment, while the contribution of net exports was negative



Tourist buying crafts from a craft shop at Buganda Road Craft Market, Derrick Ssenyonyi, 2023.

Table 1: Quarterly Real GDP Growth (%)

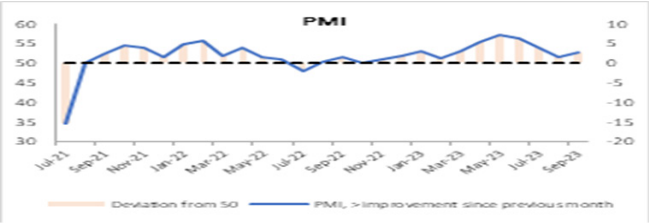
	FY2023		FY2022			FY2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	% of GDP	Y/Y growth rates							
AGRICULTURE	23.2	5.1	-1.8	4.0	9.3	1.7	9.9	8.6	2.1
Cash crops	2.6	23.1	4.8	-3.8	1.1	1.4	-2.3	9.4	-1.1
Food crops	12.1	3.0	-4.3	4.7	12.0	3.1	13.5	5.6	-0.8
Livestock	3.6	8.4	8.3	8.2	8.4	8.6	8.8	9.6	8.5
Agriculture Support Services	0.0	7.0	2.2	3.9	3.1	4.0	5.0	0.1	-1.3
Forestry	3.4	4.9	-2.8	5.3	5.3	3.5	3.5	2.8	2.8
Fishing	1.6	-0.4	-13.6	4.5	12.9	-35.9	25.0	30.8	11.8
INDUSTRY	26.1	-0.1	7.9	5.5	6.9	11.9	-2.7	0.2	7.0
Mining & quarrying	1.7	-55.9	51.2	41.0	81.6	79.0	-54.2	-26.0	69.6
Manufacturing	14.6	-5.9	6.5	7.8	6.9	15.4	1.1	-1.4	-1.5
Electricity	1.4	6.3	4.3	2.1	0.1	0.9	1.3	2.6	6.4
Water	2.4	5.6	6.1	6.6	6.8	6.0	5.4	5.3	4.9
Construction	6.2	35.3	3.1	-5.8	-4.1	0.5	0.6	9.2	8.7
SERVICES	43.8	2.9	5.9	4.1	3.7	9.6	5.3	1.4	8.8
Trade & Repairs	8.3	-6.0	3.7	9.2	8.1	8.9	5.5	0.5	8.1
Transportation & Storage	2.5	-8.7	-2.1	3.2	-7.8	-6.9	-3.0	-11.5	-6.1
Accommodation & Food Service	2.5	1.3	15.4	-19.4	-4.9	1.3	0.9	17.4	28.9
Information & Communication	2.4	14.6	9.8	4.9	1.3	4.2	4.0	12.1	20.9
Financial & Insurance	2.8	0.9	4.2	6.3	6.4	0.5	6.5	-26.7	15.5
Real Estate Activities	7.2	6.9	10.0	10.5	10.5	10.2	8.5	6.9	6.7
Professional, Scientific & Technical	2.6	28.1	5.4	-10.6	-6.6	48.5	17.7	30.3	15.3
Administrative & Support Service	2.2	2.2	2.6	2.7	6.7	18.4	15.2	21.0	18.4
Public Administration	2.9	5.7	4.3	-4.4	9.8	8.4	5.6	-9.7	-1.0
Education	3.8	14.2	-3.1	4.6	-7.7	13.1	-0.9	-8.7	11.2
Human Health & Social Work	3.5	-5.1	17.3	15.9	11.1	12.7	2.3	5.3	1.1
Arts, Entertainment & Recreation	0.1	28.0	-2.9	-12.5	-19.0	-33.8	-5.1	30.4	40.9
Other Service Activities	2.4	5.4	4.9	4.1	4.7	4.4	4.0	2.8	-0.2
Activities of Households	0.7	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.8
ADJUSTMENTS									
Taxes on products	6.9	-1.0	9.1	21.8	1.4	14.6	1.7	1.1	8.9
GDP AT MARKET PRICES		2.6	4.9	5.6	5.6	8.1	3.8	2.4	6.8

Source: UBOS

at -0.4 percentage points, as the growth of investment-related imports and foodstuffs outpaced export growth.

8. High-frequency indicators suggest that the growth momentum observed in the last two fiscal years will likely persist into FY2024. The composite index of economic activity posted a y/y growth rate of 6.6 percent in September 2023, reflecting improving sentiments, rebounding agriculture output, and a resilient service sector. Similarly, the Purchasing Managers Index (PMI) rose from 51.6 in September 2022 to 52.9 in September 2023, signaling an improvement in demand and underlying business conditions (Figure 2). A stronger business environment resulted in output growth, new orders, and rising employment, especially in the agriculture, construction, industry, services, and wholesale and retail categories. The BoU's Business Tendency Index also shows that perceptions about doing business in Uganda were optimistic on balance during September 2023, with an index score of 58.6, well above the 50-mark threshold. Optimism was highest in the construction sector, followed by agriculture, other services, manufacturing, and wholesale trade.

Figure 2: The PMI has improved since 2022.



Source: Bank of Uganda and Stanbic Bank Uganda

Monetary conditions in Uganda have eased in line with global developments

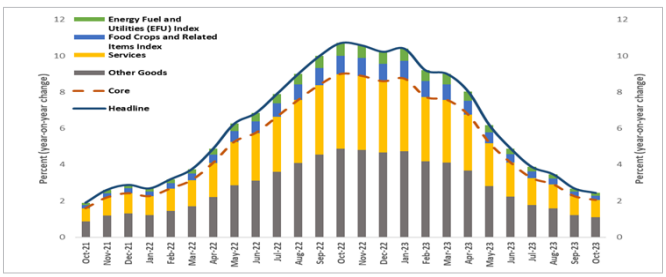
9. Headline inflation increased to 8.8 percent in FY2023 but has since decelerated. The inflation rate began to decline in February and reached 2.6 percent in November, driven by falling energy prices and the normalization of global supply chains (Figure 3). In addition, the relatively stable Ugandan shilling (UGX), coupled with tight monetary and fiscal policies, helped moderate aggregate demand, contributing to disinflation. As headline inflation began to decline in February 2023, so did core inflation, which accounts for more than 80 percent of Uganda's CPI basket. Based on the consistent decline in the inflation rate, the BoU reduced its policy rate by 50 basis points to 9.5 percent in August 2023.

10. An increase in personal loans contributed to private-sector credit growth as households borrowed to mitigate the impact of higher prices. As the BoU raised interest rates to control inflation, higher borrowing costs slowed private-sector credit growth from 8.9 percent in FY2022 to 3.0 percent in FY2023. Sector-level data show that mortgage, construction, and real estate loans, which constitute 20 percent of all private-sector lending, grew by 11 percent in FY2022 before falling by 1.7 percent in FY2023. This decline was offset by a 21.7 percent increase in personal loans and an 8 percent increase in trade loans. Personal loans represent about 22 percent of total private loans, and trade loans account for about 18 percent. Shilling-denominated loans increased by 9.7 percent, while dollar-denominated loans declined by 10.2 percent, reflecting the impact of exchange-rate appreciation on repayment costs. The share of non-performing loans rose from 5.3 percent of total loans in FY2022 to 5.7 percent in FY2023, due primarily to tight domestic liquidity conditions. The banking sector remains resilient, with bank assets increasing by 8.4 percent in FY2023, driven by a 12.2 percent increase in holdings of government securities amid slowing credit growth. The capital adequacy ratio for commercial banks rose from 21.4 percent to 24.8 percent due to increases in after-tax profits and shareholder equity.

Challenges around revenue collection threaten the fiscal consolidation

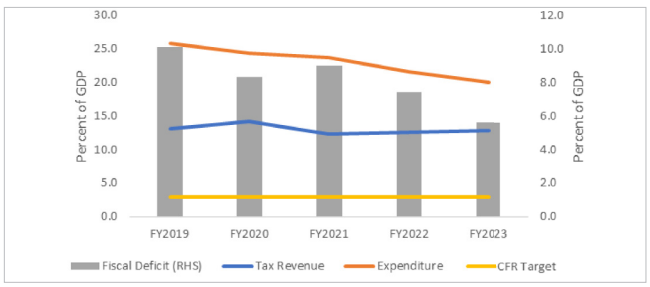
11. Supported by the government's effort at fiscal consolidation, the fiscal deficit declined in FY2023. The overall deficit, including grants, narrowed from 7.4 percent of GDP in FY2022 to 5.6 percent in FY2023 (Figure 4). Lower development spending drove the consolidation. Development spending declined by 0.8 percentage points, due primarily to the under-execution of public investment, while recurrent spending increased as the government boosted compensation for some civil servants. Fiscal revenue remained broadly unchanged at 14 percent of GDP, below the target specified in the Domestic Revenue Mobilization Strategy (DRMS).

Figure 3: Lower goods prices drove the decline in core inflation



Source: UBOS

Figure 4: The ongoing fiscal consolidation is narrowing the deficit.



Source: Ministry of Finance, Planning and Economic Development

12. The fiscal consolidation has largely focused on cutting development spending, raising concerns about the government's ability to meet and maintain its commitment of a deficit of 3 percent of GDP established by the Charter of Fiscal Responsibility (CFR). Expenditures declined from 21.5 percent of GDP in FY2022 to 19.9 percent in FY2023 (Table 2) as the under-execution of domestically and externally financed projects reduced development spending. A lack of detailed feasibility studies and implementation plans, the uncoordinated budgeting of government contributions, poor planning for rights of way and land compensation, weak contract management, and deficiencies in overall project management hamper project execution. Recurrent spending increased from 13.1 percent of GDP in FY2022 to 13.6 percent in FY2023 as salary enhancements for scientists and some security personnel drove a 0.3 percentage-point increase in wages and salaries. Interest payments also increased during the fiscal year due to a 0.1 percentage-point increase in external interest payments. Domestic interest payments, which represent 80 percent of total interest payments, remained high at 2.5 percent of GDP as the government reinstated a portion of domestic interest payments that had been revised downward by Parliament during budget discussions and increased interest rates on Treasury bills in line with the tighter monetary policy stance.

Table 2. Key Fiscal Indicators (% of GDP)

	FY2021	FY2022	FY2023
Total Revenues and Grants	**14.7**	**14.1**	**14.2**
Revenues	13.4	13.4	13.7
Tax	12.4	12.6	12.8
Non-tax	0.9	0.9	0.8
Grants	1.3	0.7	0.6
Expenditures and Lending	**23.7**	**21.5**	**19.9**
Current Expenditures	12.6	13.1	13.6
Wages and Salaries	3.5	3.5	3.8
Interest Payments	2.7	3.1	3.2
Domestic	2.1	2.6	2.5
External	0.6	0.5	0.6
Other Recurrent Expenditures	6.4	6.6	6.5
Development Expenditures	10.2	7.9	5.8
Domestic Development	3.7	5.0	3.9
External Development	6.5	2.9	1.9
Net Lending/Repayments	0.4	0.2	0.1
o/w: Hydropower Projects	0.1	0.2	0.1
o/w: BOU Recapitalization	0.3	-	0.0
Domestic Arrears Repayment	0.5	0.4	0.4
Primary Balance	**-6.3**	**-4.3**	**-2.4**
Overall Fiscal Balance (incl. Grants)	**-9.0**	**-7.4**	**-5.6**
Financing:	9.0	7.4	5.6
External Financing (net)	4.0	3.0	2.1
Disbursements	5.0	3.8	3.4
Budget-Support Loans	2.2	2.5	2.1
Project Loans	2.1	1.3	1.3
Amortization	1.0	1.1	1.3
Domestic Financing (Net)	4.6	3.4	3.4
Bank Financing (Net)	1.6	1.9	2.1
Non-bank Financing (Net)	3.0	1.8	1.3
Errors and Omissions	0.4	1.0	0.2

Source: Ministry of Finance, Planning, and Economic Development

13. Uganda's spending on social sectors is minimal. The latest available data shows that the government's investment in human capital has declined as the government prioritized closing infrastructure gaps, especially in the energy and transport sectors. Spending on education was 11.3 percent of total government expenditure in FY2020/21, below the benchmark encouraged by the Education 2030 Framework for Action – which is at least 15 percent to 20 percent of public expenditure towards education. In the health sector, government spending stood at 3.9 percent of total government spending in 2020/21 (compared to 6.5 percent in 2014/15), less than 20 percent of total health spending, while external assistance accounts for about 50 percent, and out-of-pocket spending for about one-third. The findings of a recent Public Expenditure Review (PER) undertaken by the World Bank and Uganda's Ministry of Finance, Planning and Economic Development indicated that because of the huge population pressure and because the social sectors were underfunded in the past, funding needs for social sectors are enormous. Thus, there is need to readjust the budget by reallocating resources to rebalance between the governance and security programs; integrated infrastructure program, and other productive sectors especially agro-industrialization, minerals and manufacturing and social sectors especially health and education.

14. The accumulation of domestic arrears and the use of supplementary budgets continue to pose challenges for fiscal management, damaging the credibility of the budget process. Arrears accumulated as the government ramped up efforts to provide liquidity to the private sector and support the post-pandemic economic recovery. During FY2023, the government spent UGX 769 billion to repay some of its outstanding arrears to private service providers, up from UGX 622 billion in FY2022, demonstrating its commitment to arrears clearance. Meanwhile, the use of supplementary budgeting continues to undermine budgetary credibility. In FY2023, Parliament received UGX 3.0 trillion in supplementary spending requests to support local governments and the health, security, and education sectors. Though down from 4.4 trillion (or 8.5 percent of the approved budget) in FY2022, these requests were still above the 3 percent statutory limit established in the Public Financial Management Act.

15. Revenues rose slightly, supported by an increase in tax receipts. A 0.2 percentage-point increase in revenue from pay-as-you-earn tax, taxes on rental income, and casino taxes boosted total revenue collection to 14.2 percent of GDP in FY2023. Higher salaries for scientists, promotions in the public service, and increased

employment in the private sector bolstered pay-as-you-earn collections. Revenue from taxes on rental income increased as the government rationalized the tax treatment of individuals with that of companies and raised the effective rental tax rate of companies from 12 percent to 15 percent. Revenue from casino taxes increased due to more effective enforcement of weekly returns as well as arrears recovery. However, the collection of withholding taxes and corporate income tax declined due to the diminished profitability of the banking sector. Non-tax revenue also fell despite the government's efforts to streamline non-tax revenue administration.

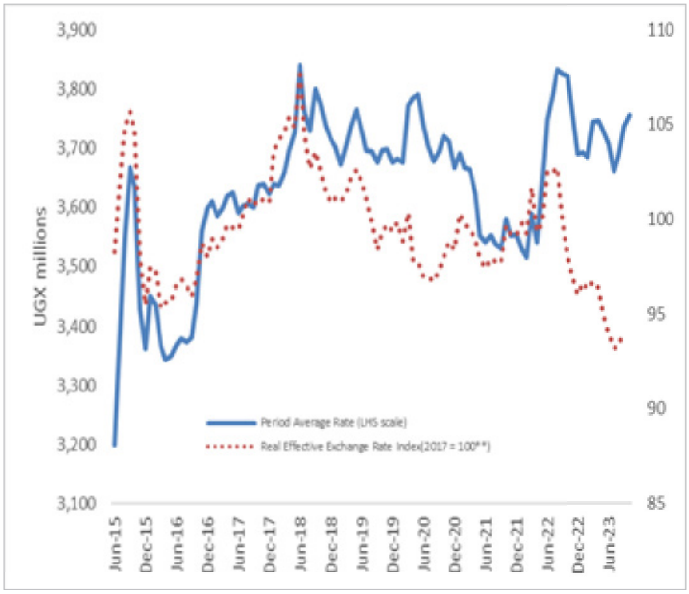
16. Anticipated oil-export receipts should keep Uganda's public debt sustainable over the medium term. Uganda's public and publicly guaranteed debt stock stood at 50.6 percent of GDP at the end of the fiscal year, up from 49.6 percent a year earlier. The latest joint IMF-World Bank Debt Sustainability Analysis (DSA), published in June 2023, rated Uganda's risk of debt distress as moderate with limited space to absorb shocks—unchanged from the previous assessment. The DSA emphasized the importance of continuing to access concessional financing while improving revenue mobilization and strengthening public investment management. Outstanding advances from the BoU contributed 2.1 percent of GDP to domestic debt at the end of FY2023. The government completed its fourth review under the International Monetary Fund (IMF), Extended Credit Facility (ECF) in June 2023, the review concluded that Uganda's economic reform program is progressing well despite a challenging global economic environment, and the authorities remain committed to the ECF Arrangement. So far, the aggregate disbursement under the ECF arrangement is US$750 million.

The current account remained stable as higher export revenues offset a surge in imports

17. The current account deficit was 7.9 percent of GDP during FY2023, broadly unchanged from FY2022, as the recovery of goods exports, tourism, and remittances was offset by the surge in imports. After falling during the first half of the year due to distortions in global supply chains, tight financial conditions, and high transport costs, imports of goods and services increased by 2.4 percentage points of GDP. The oil-import bill surged by almost 32 percent to US$1.6 billion in FY2023, boosting the share of petroleum products in total non-gold imports from 17 percent to 21 percent. Other private-sector imports (excluding non-monetary 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 reached 2.7 percent of GDP, as the reappearance of gold exports and the marginal recovery of travel and tourism compensated for the weak performance of other exports. The return of gold transactions[8] starting in August 2022 boosted trade flows, especially in the second half of the fiscal year. The recovery of the tourism sector from the effects of the Ebola outbreak between September 2022 and January 2023 underpinned the increase in gross travel-services exports, which rose from US$978 million in FY2022 to US$1,066 million in FY2023. Remittances continued to recover and reached US$1,431 million in FY2023, exceeding pre-COVID-19 levels. Remittances remain a key source of income of Uganda households, especially in rural areas.

18. The Ugandan shilling appreciated strongly through FY2023, reflecting increased inflows of foreign exchange and reduced liquidity in the domestic market, but new shocks started to reverse the trend during the first quarter of FY2024. Strong foreign-exchange inflows and the BoU's monetary policy contributed to a 1.1 percent nominal appreciation of the shilling during FY2023. As inflation in Uganda remained below the levels recorded in many of its trading partners, the shilling appreciated even more strongly in real terms, rising by 8.3 percent in FY2023 after a 5.8 percent depreciation in FY2022. By the end of the fiscal year, the real value of the shilling significantly exceeded its pre-COVID level (Figure 5), raising the risk of overvaluation which could hurt exports. Appreciation pressures continued into the first quarter of FY2024, but the shilling depreciated by 3.3 percent, falling from UGX 3,667/US$1 at end-June to UGX 3,780/US$1 at end-October 2023.

Figure 5: The Ugandan shilling appreciated substantially during FY2023.

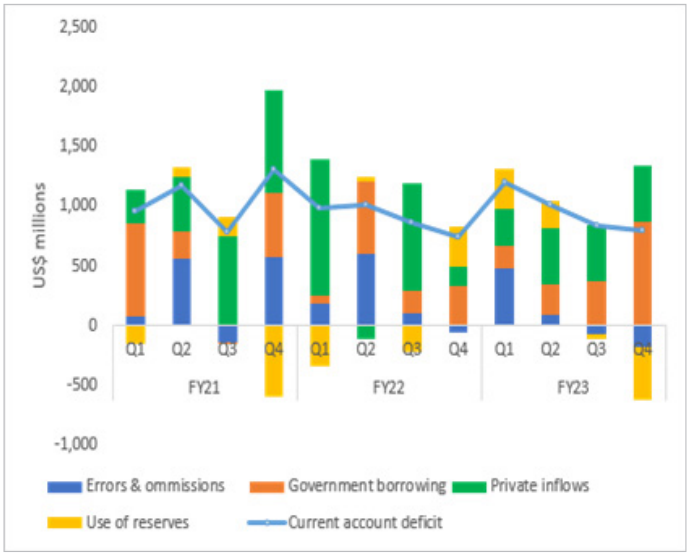


Source: Bank of Uganda

8 Gold exports were halted in July 2021 following a disagreement between gold importers and the government about the introduction of a gold levy.

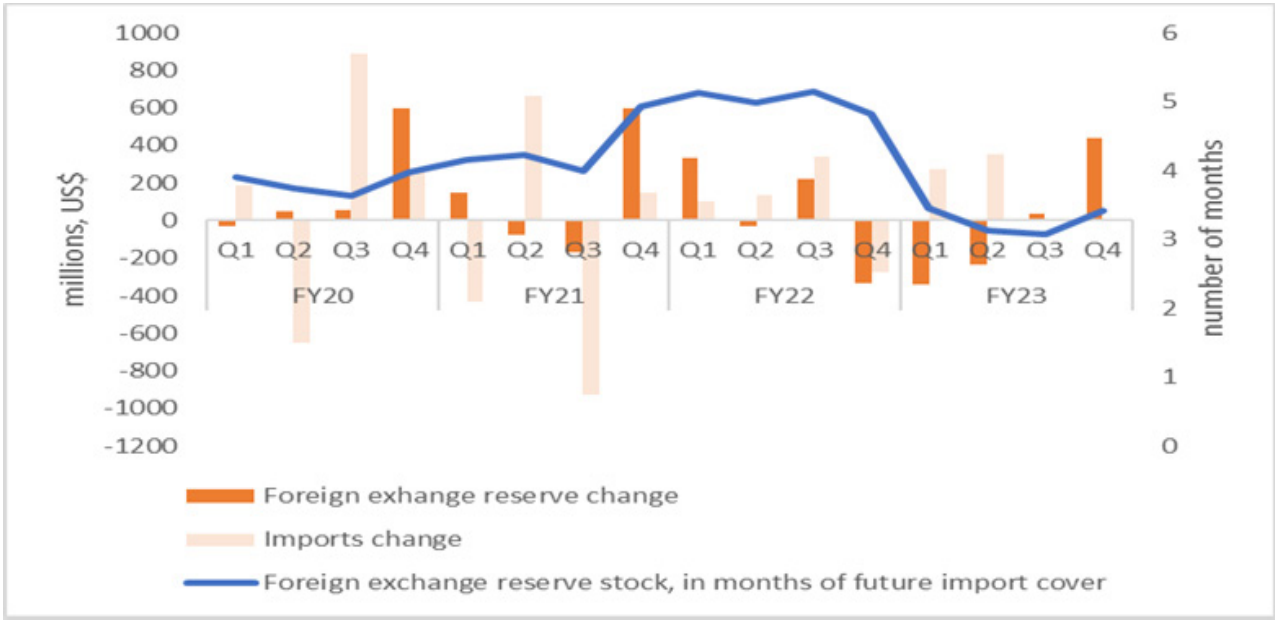
19. External borrowing declined as rising inflation prompted major central banks to raise interest rates, increasing borrowing costs on the international capital market. The current-account deficit was financed mainly through foreign direct investment (FDI) and, to a less extent, by public-sector borrowing, largely on concessional terms (Figure 6). Even as international companies grappled with a range of shocks, FDI inflows to Uganda surged to US$2.8 billion (about 5.8 percent of GDP) in FY2023, up from US$1.7 billion (about 3.7 percent of GDP) in FY2022. Equity investments in enterprises accounted for the bulk of this growth, as oil-related activities accelerated. Meanwhile, portfolio-investment outflows more than doubled, rising from US$274 million in FY2022 to US$617 million in FY2023, as capital continued to exit frontier markets amid rising interest rates and tighter global financial conditions. These outflows included sustained disinvestment from government securities, mainly long-term Treasury bonds, a trend which began during the last quarter of FY2022. Net government borrowing, however, dropped from US$1,427 million in FY2022 to US$1,022 million, or 3.5 percent of GDP, in FY2023, reflecting higher debt-service cost. Budget-support disbursements became the dominant form of borrowing, almost doubling from US$654 million in FY2022 to US$1,104 million in FY2023. These include IMF disbursements under the current program as well as borrowing from commercial banks. Project support disbursements declined from US$906 million to US$680 million over the period due to issues with project execution, as described in the section on fiscal policy.

Figure 6: Private inflows and government borrowing financed the current-account deficit.



Source: Bank of Uganda

Figure 7: Import coverage fell during FY2023.



Source: Source: Bank of Uganda

20. Uganda's foreign reserves declined, weakening its buffers against external shocks. Nominal dollar-denominated reserves fell from US$4.1 billion in FY2022 to US$3.6 billion in the third quarter of FY2023, while import coverage declined from 4.8 months to 3.1 months, due to fast-growing interest payments and a mounting import bill. Subsequent government loan disbursements and investment income enabled the BoU to rebuild its stock of foreign reserves to US$ 4.1 billion (or 3.4 months of import coverage) by the end of the fiscal year. However, this level of reserves is below the IMF ECF program target of 4 months and the East African Community target of 4.5 months of imports.

1.2 Economic Outlook, Risks, and Policy Actions

Economic resilience underpinned by the prospects of the oil sector

21. The annual real GDP growth rate is projected to rise to about 6 percent during FY2024, marginally below the forecast in the June 2023 edition of the Uganda Economic Update, reflecting lower-than-anticipated outturns in FY2023. Building on its resilience to several recent shocks—including high commodity prices, disrupted global supply chains, tighter global financial markets, and policy uncertainty—the Ugandan economy is expected to continue growing at a robust pace, thereby narrowing the output gap. The sustained push to start oil production by 2025 has accelerated the construction of about US$20 billion in oil-related infrastructure. However, other private investments are expected to be constrained by the difficult economic environment, especially liquidity constraints underpinned by relatively tight monetary policies and the ongoing fiscal consolidation, the uncertainty caused by the conflict in the Middle East, and adverse weather conditions. Public investment is also expected to decelerate in line with the fiscal consolidation. Nevertheless, the recent oil-driven surge in private investment is expected to offset the negative impact of these shocks (Table 3).

22. Uganda's recovery is expected to continue in the medium term, though risks to the outlook include a global economic slowdown, worsening conditions in global financial markets, and additional weather-related shocks. The country's medium-term prospects hinge on the continued rebound of tourism activity and the further development of the oil sector, that is attracting foreign investment which is forecast to reach 11 percent of GDP by FY2025. Medium-term growth also depends on domestic private investment in oil-related infrastructure ahead of the start of oil production in 2025, as well as the economic impact of oil production itself. Lower inflationary expectations could also prompt the BoU to ease monetary policy. Supported by a resurgent tourism sector, export diversification, and agro-industrialization, real GDP growth should return to its long-term trend of 6.5 percent and above.

23. Disinflation is also expected to boost the recovery of firm employment and real household income. While high commodity prices are expected to bolster the income of cash-crop-producing agricultural households, these are a small share of all households due to the low level of agricultural commercialization. However, the continued growth of non-farm 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 41.7 percent in 2023 to 40.7 percent by 2024. 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.

24. With uncertainty weakening global commodity prices, the BoU may further ease monetary policy. The BoU must guard against the

Table 3. Baseline Economic Outlook (annual % change unless otherwise indicated)

	FY22	FY23	FY24f	FY25f
Real GDP growth (baseline)	**4.7**	**5.2**	**6.0**	**6.6**
Private consumption	3.4	4.4	5.6	5.8
Government consumption	-17.4	5.1	5.0	5.3
Gross fixed capital investment	20.1	5.5	8.2	9.3
Exports of goods and services	-18.6	7.0	7.8	8.7
Imports of goods and services	-8.9	3.2	8.6	8.8
Agriculture growth	4.4	5.0	5.1	5.3
Industry growth	5.4	3.9	5.6	6.5
Services growth	4.4	6.3	6.8	7.3
Inflation (CPI)	3.7	8.8	5.2	5.0
Current account (% GDP)	-7.9	-7.9	-9.4	-11.6
Net FDI inflow (% GDP)	3.1	5.8	8.7	11.0
Fiscal balance (% GDP)	-7.4	5.6	-3.4	-3.4
Public debt (% GDP)	50.7	50.6	47.7	46.8

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

pass-through effect of the shilling's depreciation while inflationary pressures subside. A monetary policy aimed at controlling inflation, a risk-averse banking system, and tight global liquidity conditions will continue to suppress aggregate demand. Weak demand will adversely affect the recovery and further expand the output gap, which in turn will accelerate disinflation. Core inflation was already well below its target in May and is expected to fall below 5 percent by end-FY2024.

25. The current account is projected to deteriorate further due to continued oil-related imports. Slowing global economic activity could weigh on the growth of commodity exports—including coffee, maize, and tea—which has recently gained momentum. Regional demand could increase commodity exports if consumers start substituting into high-value products from Uganda as the country expands its capacity for value addition. Despite the recovery of tourism activity, recent acts of terrorism pose a serious threat to the tourism sector, and several embassies have issued security advisories to their citizens about visiting Uganda. The modest outlook for exports contrasts sharply with the expected acceleration of imports to support investments in oil production. Rising imports, along with large FDI inflows and real appreciation, raise concerns that Uganda could already be facing some elements of "Dutch disease."[9] Remittances are expected to grow moderately due to slower global growth in FY2024 before recovering over the medium term as employment conditions in source countries improve.

26. FDI is expected to continue to finance the largest share of the current account. Supported by the growth of the oil sector, FDI is projected to exceed 10 percent of GDP in FY2025. Large FDI inflows will ease financing needs, minimize government borrowing, and allow a gradual accumulation of foreign-exchange reserves. Non-concessional financing is likely to be limited given the authorities' strategy to maximize the use of concessional financing to maintain sustainable debt dynamics.

27. Fiscal consolidation should reduce the deficit to about 3.4 percent of GDP in FY2024 and enable the government to achieve the CFR's target by FY2026. The implementation of the DRMS is expected to drive the improvement in the fiscal balance. Reforms to tax expenditures and value-added taxes coupled with improvements in tax administration are expected to raise revenue by the targeted 0.6 and 0.5 percentage points of GDP in FY2024 and FY2025, respectively. This consolidation is expected to return the debt to a more sustainable path, and a debt burden of about 47 percent of GDP by FY2025—consistent with CFR targets—should limit the risk of crowing out lending to the private sector. The fiscal consolidation notwithstanding, the government will need to sustain its efforts to support the recovery and revitalization of education, health, and social protection, which are critical for inclusive growth and poverty reduction.

Numerous risks threaten Uganda's medium-term outlook

28. The medium-term outlook is clouded by considerable uncertainty, with risks tilted to the downside. First, economic growth may be impacted by a more severe deterioration of the global economy due to rising geopolitical tensions, an escalation of the conflict in the Middle East, slower growth in China, the further fragmentation of the world trading system, or a renewed increase in commodity prices. Moreover, inflation in advanced economies may be stickier than expected, which would require more monetary tightening and cause further capital outflows in developing countries. Additional risks threaten the global financial sector, and a strong pass-through effect on Uganda's economy could necessitate a return to monetary policy tightening, slowing the recovery of businesses and household income. A slower global economy and the conflict in Sudan could also widen the trade deficit and reduce remittances, tourism, and FDI, including investments in oil production. Vulnerabilities in China and Europe pose particularly serious risks, as these are the main sources of investment in Uganda's oil sector. Tighter monetary policy could cause a sharper deterioration in the asset quality in the banking sector, raising costs and further constraining access to finance for firms.

29. The increased frequency of droughts and floods increases the vulnerability of Uganda's firms, farms, and households. Many households rely on the agricultural sector for their primary 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.

30. Under a downside scenario, annual GDP growth could fall to about 5 percent in FY2024 before marginally recovering to 5.5 percent in FY2025. This scenario assumes that slowing global economic activity will reduce demand for Uganda's exports, lower commodity prices, and create renewed inflationary pressures. If these pressures pass through to domestic inflation, the BoU will have to assume a more aggressive monetary policy stance, with adverse implications for growth.

31. Slower growth would also undermine the planned fiscal consolidation. In addition to reducing fiscal revenues, which remain highly sensitive to shocks, slow growth will increase spending, exerting pressures and make it harder for the government to complete its fiscal adjustment. The uncertainty around the external outlook and the increased frequency of natural disasters due to climate change could also worsen the country's debt profile.

32. Uganda's risk of debt distress is rated "moderate," but debt dynamics are vulnerable to shocks. The June 2023 Joint World Bank-IMF DSA found that Uganda has limited space to absorb shocks. Key risks to the debt outlook include environmental shocks, a further tightening of global financial conditions, inconsistent reform effort, and delayed oil exports. The most extreme shock to public debt service 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 biggest risk to external debt sustainability.

9 Dutch disease refers to a phenomenon in which the rapid development of one sector of the economy, typically an extractive industry, precipitates a decline in other sectors by generating changes in relative prices that cause the appreciation of the domestic currency.

1.3 Summary and Recommendations

33. Uganda's economy has weathered multiple shocks, but the prospect of accelerating growth into the medium term is fragile. Adverse weather-related shocks and commodity prices threaten livelihoods and living standards and could reverse progress on poverty reduction. Government interventions are likely to be constrained by limited fiscal space due to revenue shortfalls, project execution challenges, and rising public debt vulnerabilities. In line with the analysis above, attention to the following four priority areas is required to sustain a resilient and inclusive recovery.

34. First, the fiscal adjustment should ringfence public investment and human capital spending. In addition to raising revenues and rationalizing spending, especially recurrent expenditures, the government must use the capital budget more efficiently by deepening reforms to public investment management. In particular, the authorities must ensure that projects have sufficient resources for their execution. Increasing public investment in education, health and social protection is critical to support inclusive growth and poverty reduction, as detailed in the special focus section of this edition of the Uganda Economic Update. The government must boost spending in these areas while avoiding recourse to domestic financing of the deficit, which would increase the exposure of the domestic financial system to macro-fiscal risks, or to the renewed accumulation of domestic arrears, which would harm the private sector. Instead, the authorities must focus on rationalizing expenditures while tapping additional sources of concessional financing.

35. Second, monetary policy must be more closely coordinated with fiscal policy. Harmonizing monetary and fiscal policy would help ensure a less painful adjustment of inflationary expectations and pressure while supporting private-sector growth. Increased net lending to the government through bank advances and/or the non-payment of matured securities would reduce budgetary flexibility and narrow the fiscal space to respond to shocks.

36. Third, a combination of macroeconomic and structural policies will be necessary to prevent Dutch disease by increasing productivity and diversifying the economy. 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 government will need to avoid exchange-rate misalignments, especially as the capital flows generated by the oil sector intensify, while investing heavily in the non-oil economy to enhance productivity and boost export growth. Export-promotion efforts must extend beyond the traditional export commodities, and the authorities should aggressively promote service export.

37. Finally, to counter more frequent and intense shocks, the government needs to adopt well-targeted interventions that effectively support vulnerable households. The government must accelerate the creation of a national social registry of vulnerable households to enable public agencies to respond quickly and expand support beyond current beneficiaries of social assistance programs. Strengthening and expanding the digital payment systems would allow for the efficient and transparent distribution of support to affected households. Developing a disaster risk financing strategy will be crucial to strengthen the country's financial resilience to disasters and facilitate a timely response. Poor and vulnerable households can be supported through labor-intensive public works and livelihoods programs designed to reduce negative coping strategies such as reducing food intake, selling productive assets, and pulling children out of school. In the longer term, these programs can help households increase income, build assets, and develop resilience.

A happy customer poses for a picture with two sacks of colorful tomatoes in Nakasero Market, Kampala, Derrick Ssenyonyi, 2023.

PART 2

Assessing the Quality, Efficiency, and Effectiveness of Public Spending in Education

Students at a Secondary School enjoying playtime during their lunch break. Derrick Ssenyonyi, 2023.

38. With a young and growing population, Uganda has a one-time opportunity to capture a demographic dividend. As improving economic, health, and social conditions lower first mortality rates and then fertility rates, countries pass through a brief window in which the size of the working-age population (ages 15-64) far exceeds the dependent population of children and the elderly. During this demographic transition, a country can leverage its changing age structure to accelerate growth, but only if its workers can realize their productive potential. Many of the world's emerging and advanced economies—including the "East Asian tigers"—experienced demographic dividends between the 1970s and the early 2000s. Uganda is currently a "pre-dividend" country, meaning that today's children will be the working-age population during the country's demographic transition.[10]

39. However, the demographic dividend is not guaranteed. To ensure that Uganda reaps a demographic dividend, the government must invest in human capital. 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."[11] 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.[12] The decisions the Ugandan government makes now about its human capital investments will determine whether the country seizes, or misses, the opportunity presented by the demographic dividend.

40. Quality education is essential to human capital formation, innovation, and growth. The international literature highlights three mechanisms through which education affects economic growth:

i). by increasing workforce productivity;

ii). by boosting the innovative capacity of the economy; and

iii). by accelerating the creation, uptake, and diffusion of knowledge and modern technologies.[13]

While access to school and educational attainment both matter for growth, educational attainment has a greater impact. Cross-country data show that increasing access to school and improving basic literacy and numeracy boost a country's future GDP growth. However, improving learning alone yields higher returns than improving access alone, and the highest benefits come from universal access and universal basic skills, with the lowest-income countries gaining the most.[14]

41. According to the Human Capital Index (HCI), a Ugandan child born today will be only 38 percent as productive during his/her lifetime as he or she could have been with the right investments in human capital.[15] The HCI combines health indicators such as the child survival rate, the stunting rate, and the adult survival rate with education indicators such as average years of schooling and average learning levels. Based on international evidence, these indicators can be used to estimate the productivity of future workers against a benchmark of complete education and full health. Uganda ranked 154th out of 174 economies on the 2020 HCI, and its performance was close to the averages for SSA and low-income countries worldwide. Uganda's HCI score was below that of Kenya (0.55) but similar to those of its East African neighbors, including Rwanda (0.38), Tanzania (0.39), and Ethiopia (0.38). The HCI factors in expected years of schooling and Learning Adjusted Years of Schooling (LAYS), which takes account of what children learn as measured by internationally benchmarked assessments. Ugandan children can expect to complete 6.8 years of pre-primary, primary and secondary school by age 18. However, in terms of LAYS, this is only equivalent to 4.3 years – a learning gap of 2.5 years.

42. The government has committed to improving human capital through the third National Development Plan (NDP III), but the country is not on track to achieve its goals. NDP III set ambitious targets, aiming to increase average years of schooling to 11 years and LAYS to 7 years while also boosting the ratio of science and technology graduates to arts graduates and increasing employer satisfaction with skills-training programs. However, the NDP III's Mid-Term Review found that the country is not likely to achieve these objectives.[16] The 66 weeks of pandemic-related school closures between March 2020 and January 2022 caused substantial learning losses, especially for the most disadvantaged students. According to national assessments, the percentage of students rated proficient in English literacy dropped from 32 percent in 2018 to 27 percent in 2021, and the proficiency rate for numeracy dropped from 55 percent to 41 percent.[17]

43. Uganda joined other African countries in making bold new commitments to human capital development through the Dar es Salaam Declaration. On July 26, 2023, Her Excellency Jessica Alupo, Vice President of the Republic of Uganda, joined heads of state and their representatives from 44 African countries to ratify the Declaration at the Africa Heads of State Human Capital Summit. Through the Declaration, Uganda and other countries jointly committed to achieve several concrete targets for education,

10 UNICEF, 2020

11 World Bank's definition. For details and country data see https://www.worldbank.org/en/publication/human-capital

12 OECD, 2010

13 Hanushek & Woessmann, 2010; Mankiw, Romer, & Weil, 1992; Lucas, 1988; Benhabib and Spiegel, 1994

14 Hanushek & Woessmann, 2021

15 For definition and methodology see https://www.worldbank.org/en/publication/human-capital

16 NPA, 2023

17 UNEB, 2021

The main school library of a tertiary institution in Kampala, Uganda. Derrick Ssenyonyi, 2023.

health, and social protection by 2030. These include increasing the accessibility, affordability, and quality of education; reducing learning poverty by at least 25 percent; boosting literacy rates to at least 75 percent; increasing access to secondary and tertiary education among adolescent girls; providing training on digital skills; and increasing domestic investment in human capital by 3 percent.

44. This special focus section reviews public spending on education in Uganda and provides recommendations to enable the country to achieve its human capital and development goals. This section builds on a recent Public Expenditure Review (PER) undertaken by the World Bank and Uganda's Ministry of Finance, Planning, and Economic Development. While focusing on basic education this section will also discuss other levels of education – including Business, Technical and Vocational Education and Training (BTVET) and tertiary education – when relevant to understanding system-wide issues. The analysis also explores the overall adequacy, efficiency, effectiveness, and equity of public spending across the education sector. The analysis reveals that:

i). Most Ugandan children enroll in primary education, but completion rates are low, and most children do not master basic literacy and numeracy skills. Grade repetition is high, especially at the P1 level, mainly due to poorly prepared learners entering the system without access to quality early childhood education.

ii). Public spending on education has been consistently low by the standards of comparable countries and is not consistent with Uganda's population growth rate or development aspirations. Low and inefficient public spending on education contribute to low and inequitable access, as well as poor learning outcomes.

iii). Households finance the majority of spending on education, which contributes to inequitable access. Private schools play an important role in the education sector, but even students attending government schools face high out-of-pocket costs. Among those who drop out of primary or secondary school, most do so for cost-related reasons.

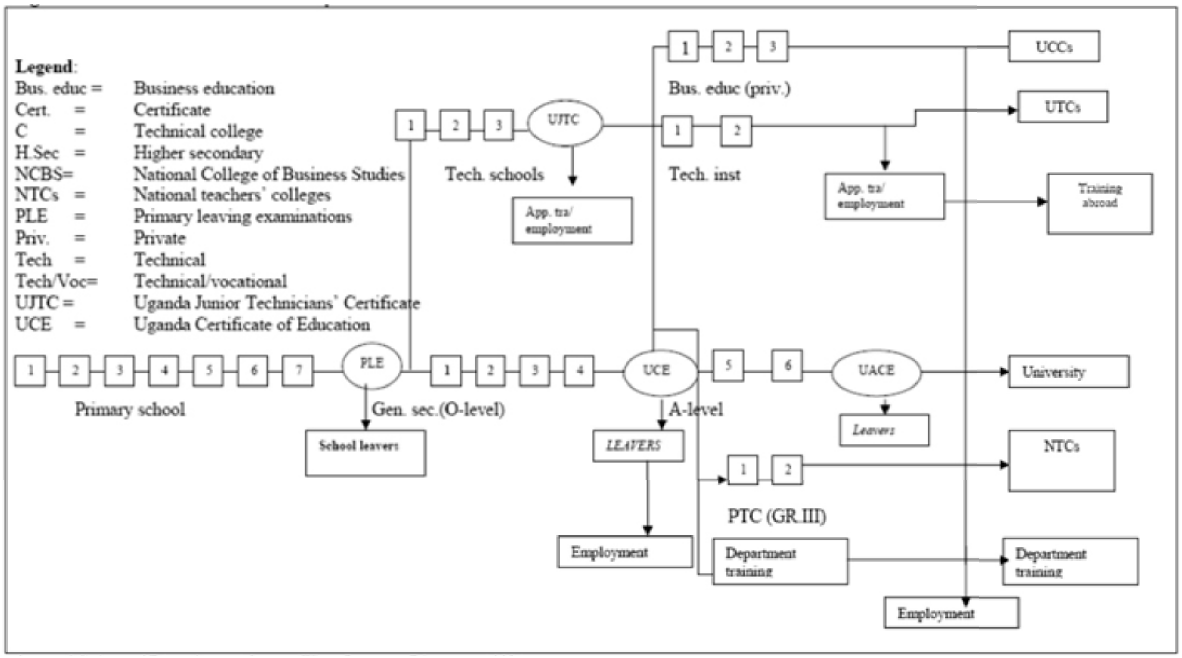
iv). Public spending on education is pro-poor at the primary level but becomes increasingly regressive at higher levels.

v). Challenges with the efficiency, effectiveness and equity of education spending are interrelated, and there are opportunities to make progress on multiple objectives through greater investments in early childhood education, teacher preparedness and motivation, and interventions to increase participation and reduce dropout.

2.1 Structure and Governance

45. Uganda's formal education system encompasses pre-primary, primary, secondary, and tertiary education. As stipulated in the 2008 Education Act, pre-primary education (ages 2-5) is the responsibility of the private sector, while the government retains a role in regulation, quality assurance, and teacher training. The primary level is free and compulsory and consists of seven grades (P1-P7), serving children ages 6-12. At the secondary level, students have two options: general secondary education (O-level and A-level) or vocational and technical education (BTVET institutions). Vocational education can take place at secondary, post-secondary and tertiary levels. Primary school graduates can also opt to enter four-year teacher training colleges (Figure 8).

Figure 8: The Structure and Organization of the Uganda´s Formal Education System.



Source: UNESCO-IBE (2012)

46. A student's progression through the various levels of education depends on his or her performance on national learning assessments. National examinations are designed for certification and selection. The Primary Leaving Examination (PLE) is a mandatory examination that certifies completion of primary education and determines progression into O-level or lower secondary education. At the end of O-level, students sit for the Uganda Certificate of Education (UCE) examination. Only UCE holders are eligible for A-level or upper secondary education. At the end of upper secondary education, students sit for the Uganda Advanced Certificate of Education (UACE) examination, their performance on which determines their eligibility for university education.

47. Uganda has a history of progressive and inclusive education policies. The right to education is guaranteed in the Constitution. Among African countries, Uganda was an early adopter of free primary education, passing the Universal Primary Education (UPE) policy in 1997. Primary enrollment increased from 2.6 million in 1995 to 8.7 million by 2017. Although in practice the UPE policy did not eliminate school fees or other out-of-pocket costs borne by households, it increased educational attainment, improved child health, and enhanced employment outcomes and future earnings.[18] To consolidate the gains from the UPE policy and expand equitable access to secondary education, in 2007 the government introduced the Universal Post Primary Education & Training (UPPET) program, commonly known as Universal Secondary Education (USE). In 2019, Uganda hosted an estimated 1.27 million refugees and asylum seekers, the most of any country in Africa, and its progressive policy framework provides for free access to education and training for refugees.

18 Keats, 2018

Table 4. Distribution of School Attendance by Education Level and School Type, 2019/20 (%)

School Type/ Education Level	Pre-Primary Education	Primary Education	Secondary Education	Post-Primary Vocational Education	Post-Sec-ondary and above	Total
Government	20	62	43	20	45	53
Private	76	36	55	73	51	45
NGO /Religious/ Other	3	1	2	7	4	2
Number of students	**2,360,102**	10,647,073	2,216,000	152,004	289,135	15,587,730

Source: World Bank based on the Uganda National Household Survey 2019/20.

48. Students in Uganda are significantly more likely to attend private institutions than are their counterparts in peer countries. During 2019/20 school year, about 62 percent of primary students attended government-supported institutions, well below the average of 92 percent for Ethiopia, Kenya, Rwanda, and Tanzania.[19] At the secondary level, nearly 43 percent of student attended government-supported institutions, almost half the regional average of 85 percent. Among pre-primary-aged children, public schools account for 20 percent of attendance, far below the regional average of 76 percent (Table 4). Since pre-primary education is not formally provided in government schools, the 20 percent enrollment in government-supported schools likely represents the underage enrollment of pre-primary-aged children in primary schools. MoES has undertaken initiatives to leverage higher-performing private schools to help improve government schools, including school twinning with mentoring for school leaders, as well including private schools in quality enhancement projects.

49. Most education spending is decentralized through local governments. Decentralization in Uganda began in 1986 with the aim of promoting participation in the democratic process and improving public service delivery. Uganda's 1995 Constitution and 1997 Local Government Act specified the devolution of functions. During FY2022, about 20 percent of education spending was executed by central government agencies such as the Ministry of Education and Sports (MoES) and the Kampala Capital City Authority, 24 percent by universities, and 56 percent by local governments.

50. Pre-primary, primary, and secondary education are mainly provided by local governments. According to the Local Government Act, district and municipal councils are responsible for providing pre-primary; primary; secondary; science, technology, and innovation; special needs; and technical and vocational education.[20] During FY2022, local governments executed 94 percent of the national education budget for primary education and about 95 percent of the national budget for secondary education. The national budget is the main source of revenue for local government, and its resources are provided through unconditional transfers, conditional transfers, and equalization grants. Unconditional transfers are designed to provide the minimum funding needed for local governments to supply decentralized services. Conditional transfers finance specific programs, and the funds must be utilized for specific purposes according to conditions agreed upon between the central and local governments. Equalization grants provide additional funds to the least-developed districts. Locally mobilized revenues make up less than 1 percent of the approved budgets of local governments. The government has allowed local governments greater autonomy over expenditure decisions, but some aspects of education services have not been fully devolved. During FY2022, the MoES executed 57 percent of the national education budget, while the Uganda National Examinations Board executed 21 percent.

51. Uganda has made progress toward developing a private-sector-led BTVET system. With support from the World Bank and other development partners, the government is implementing the Skilling Uganda Strategic Plan, which includes the formation of private-sector-led skills councils and reforms to enhance the capacity of BTVET institutions to deliver high-quality, demand-driven training programs in the agriculture, construction, and manufacturing sectors. The government and the Private Sector Foundation of Uganda (PSFU) have launched an innovative Skills Development Facility (SDF) that fosters collaboration between training providers and employers to develop market-relevant skills.

19 Calculations based on UNESCO UIS (2021).

20 MoES, 2021

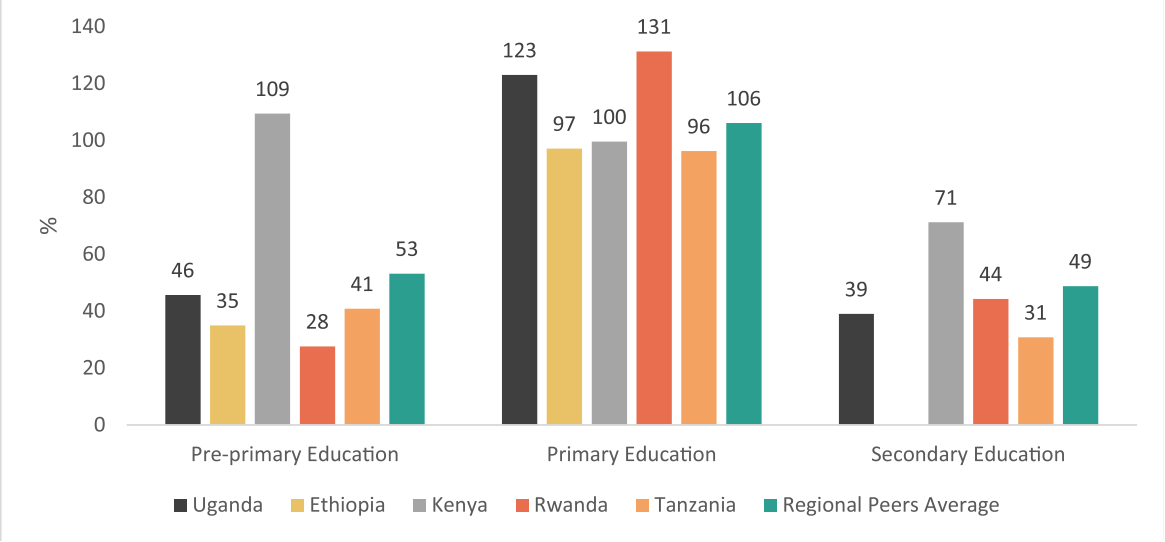
2.2 Key Education Outcomes

52. Uganda has made significant progress toward its goal of ensuring universal primary education, but secondary enrollment rates continue to lag. In 2019, the gross attendance ratio (GAR) for primary education stood at 123 percent, above the levels of other East African countries. A GAR over 100 percent reflects both near-universal access to primary education and a sizable share of children attending primary school despite being outside the official age range. In 2019, the GAR[21] for secondary education stood at 39 percent, compared to 49 percent among regional peers (Figure 9). Estimates based on official administrative data rather than household self-reports, which are less up-to-date than the GAR,[22] reveal that enrollment in secondary education increase by only two percentage points between 2007 and 2016 despite the introduction of the USE policy. The lack of progress in increasing secondary enrollment is likely due to rapid population growth, insufficient infrastructure, and social factors such as early marriage. In 2019, enrollment rates at the pre-primary level lagged those of Kenya and other regional peers.

53. A combination of late enrollment and high repetition undermines the efficiency and quality of primary education. About one-third of P1 students are overage,[23] which means they entered primary education at age 8 or above instead of 6-7. Late entry contributes to overcrowded classrooms and increases pressure on limited learning resources in the early primary grades. These conditions contribute to high rates of grade repetition, which further undermine the efficiency of primary education. In the 2019/20 school year, about 18 percent of P1 students were repeaters, and repetition rates were far higher in public schools (26 percent) than in private schools (7 percent). Grade repetition in P1 is especially common among the most socioeconomically vulnerable children, including those in the poorest income quintile (27 percent) and those living in the northern parts of the country (29 percent). Research indicates that these patterns largely reflect differences in access to pre-primary education, which is crucial to enable children to arrive at primary school ready to learn.[24]

54. Only 60 percent of children who start primary education in Uganda remain in school at the end of P7, and cost is the most common barrier to education.[25] Just 17 percent of young adults between the ages of 25 and 34 have completed at least one grade at the secondary level, while 52 percent left school during the primary level. Among that group, "no funding" and "too expensive" are the two most-cited reasons for leaving primary education, and both become increasingly relevant at higher primary grade levels[26]. Poor academic performance and discouragement were also cited, especially among boys and those leaving school in early grades, while pregnancy is a major barrier for girls in the later primary years (Table 5). The COVID-19 pandemic exacerbated the problem of teenage pregnancy.

Figure 9. Gross Enrollment Rates, 2019 (%)



Note: The gross attendance ratio (GAR) for Uganda, based on the National Household Survey 2019/20.
Source: UNESCO 2023, Uganda National Household Survey 2019/20, and Cerdan-Infantes & De Andrade Falcao, 2022

21 The gross attendance ratio (GAR) is the total number of students attending primary school, regardless of age, expressed as a percentage of the official primary school-age population. It is based on household survey data.

22 Uganda is in the process of rolling out a new Education Management Information System (EMIS) which, when fully functional, will enable more precise computation of official enrollment rates.

23 Excluding repeaters. World Bank calculations based on Uganda National Household Survey, 2019/20.

24 Weatherholt et al, 2018

25 UBOS, 2022.

26 The metadata of the household surveys does not offer a clear differentiation between "No funding" and "Too expensive".

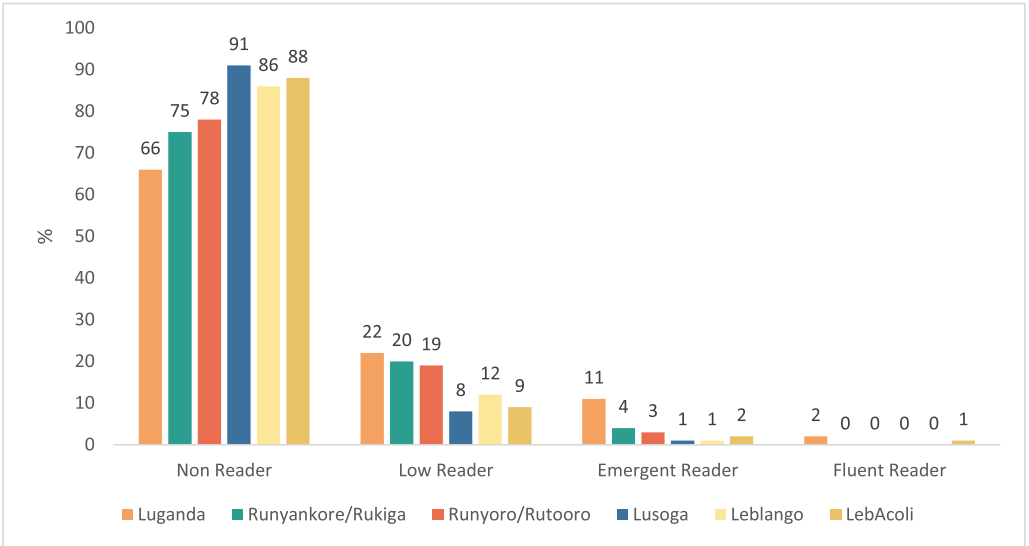
Table 5. Distribution of Reasons Cited for Leaving Primary Education by Grade and Gender, 2019/20 (%)

Primary Education	Female				Male				Total			
	P1-P2	P3-P4	P5-P6	P7	P1-P2	P3-P4	P5-P6	P7	P1-P2	P3-P4	P5-P6	P7
No funding	34	37	42	44	29	35	37	45	31	36	40	44
Too expensive	10	21	18	22	13	16	20	26	12	19	19	24
Not willing to attend further	13	11	11	5	23	22	21	16	18	16	15	10
Sickness or calamity in family	16	7	6	4	17	6	6	5	16	6	6	4
Poor academic progress	9	9	6	4	10	11	10	3	10	10	8	4
Pregnancy	0	7	12	14	0	0	0	0	0	3	7	8
Parents did not want	8	2	1	1	5	2	0	1	7	2	1	1
Completed desired schooling	0	1	1	3	1	4	2	2	0	2	1	2
Had to help at home	4	2	2	0	1	0	1	0	3	1	1	0
Other	5	3	2	3	1	3	3	2	3	3	3	2

Note: Each column totals 100%. Source: World Bank based on Uganda National Household Survey, 2019/20

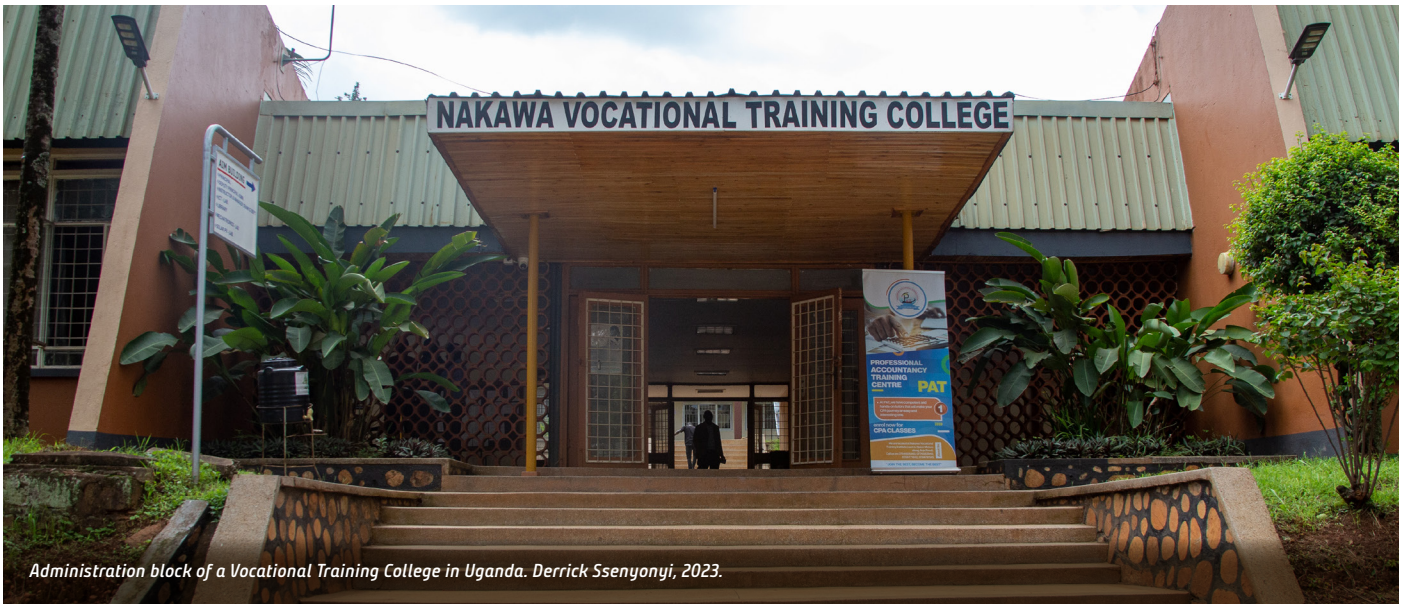
56. Uganda's education system is not effectively teaching basic skills to most students. Despite the country's remarkable progress in increasing primary enrollment rates, most students do not leave the system with basic competencies in literacy and numeracy. According to the most recent results of the National Assessment of Progress in Education (NAPE),[27] only 52 percent of P7 students meet proficiency standards in English literacy, and 39 percent meet proficiency standards in mathematics. Moreover, proficiency rates in both subjects have declined in the wake of the pandemic. An Early Grade Reading Assessment administered in 2022 found that most P2 students cannot read a single word in their local language (Figure 10).

Figure 10. Early Grade Reading Assessment Results by Local Language, 2022



Source: USAID. "Learning Recovery in Primary Schools in Uganda." PowerPoint presentation, 6 December 2022.

27 The NAPE is administered by the Uganda National Examinations Board. It has assessed Grade 3 and Grade 6 (ISCED 1) students since 1996 and started assessing Grade 9 (ISCED 2) students in 2008. It includes students in public and private schools.



Administration block of a Vocational Training College in Uganda. Derrick Ssenyonyi, 2023.

57. Uganda's young and growing workforce faces immense skilling needs. Uganda's labor market is characterized by high levels of vulnerable employment in agriculture and informal services. Employers across the formal and informal sectors cite the lack of managerial, entrepreneurial, socio-emotional, technical, digital, and practical skills as key constraints to productivity.[28] Nearly half of the 10.5 million young people between the ages of 15 and 29 require skills training to participate fully in the economy, and projections indicate a rising demand for entry-level and mid-level BTVET skills to support industrialization and structural economic transformation. Despite these opportunities, enrollment in BTVET programs is hindered by high tuition costs and other fees, academic entry requirements, and negative attitudes toward BTVET training. Furthermore, inadequate career guidance in secondary schools, limited career paths for BTVET graduates, and insufficient integration with industry hinder the attractiveness of BTVET programs. Limited access to startup capital, equipment, and markets exacerbates the challenges faced by aspiring BTVET learners.[29] Gender gaps in BTVET are severe, with female trainees representing 36 percent of enrollment.

58. 58. Low enrollment rates in science, technology, engineering, and mathematics (STEM) programs in Ugandan universities hinder the development of a skilled workforce capable of supporting technological innovation and industrialization. Despite advancements in higher education and training, enrollment rates for STEM programs remain well short of the targets set in the NDP III. For example, the ratio of science to humanities courses is 2:5, while the target ratio is 3:5.[30] This disparity can hinder the development of a skilled workforce capable of driving technological innovation and industrialization (NPA, 2022).

59. Refugees in Uganda face additional obstacles, including costs and language barriers, that discourage enrollment and contribute to high dropout rates at all education levels. Financial barriers are particularly severe among refugees, who are about 33 percent more likely to cite financial problems as the reason for dropping out than Ugandans. Language barriers create additional learning difficulties for refugees, as many come to Uganda speaking a wide variety of native languages but little or no English. Many refugee children are already past the typical school-entry age when they arrive in hosting communities. In certain areas, the long distances that children must travel to reach schools make the situation even more challenging. Morevoer, long distances to secondary schools raises concerns about the purpose of attending primary school when further education opportunities are limited. According to the Education Response Plan for Refugees and Host Communities in Uganda (ERP II), 88 percent of secondary-age refugee children are not in school, and only 8 percent of refugees have received vocational education or skills training.

28 Uganda Skills Needs Assessment, 2020

29 NPA, 2022

30 Ibid.

31 This figure includes allocations to the education sector through the Human Capital Development Program and does not include education and skills strategies under other NDP III programs. However, the MoES is responsible for regulating, supporting, guiding, and coordinating all educational institutions in Uganda, and any other education programs are likely informal.

32 MoFPED, 2022

33 See UNESCO Institute for Statistics (UIS), 2022. The Education 2030 Framework for Action aims to advance progress on the Sustainable Development Goal for education and its targets. The framework urges adherence to benchmarks established in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which include allocating at least 4-6 percent of GDP and/or 15-20 percent of total public spending to education. https://unesdoc.unesco.org/ark:/48223/pf0000245656. As a member of the United Nations, Uganda is party to all conventions, resolutions, and commitments to sustainable development. https://unesco-uganda.ug/wp-content/uploads/2022/10/Uganda-National-Education-for-Sustainable-Development-2030-Framework.pdf

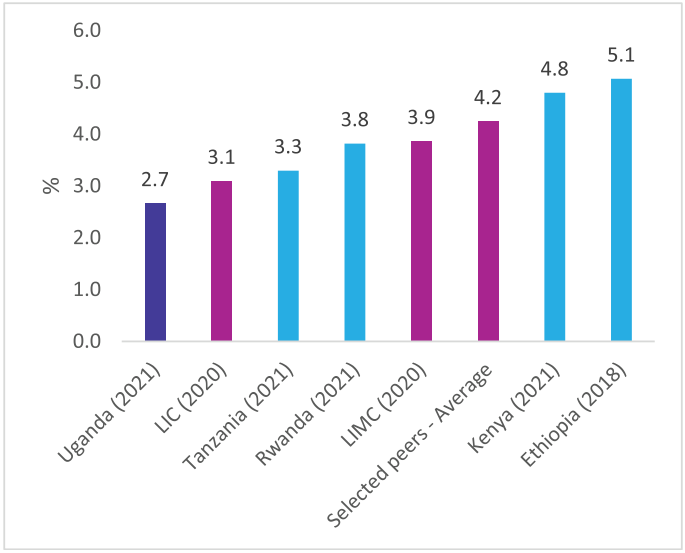
2.3 Analysis of Public Spending on Education

2.3.1 Adequacy

60. Uganda's education spending is well below the levels of most East African countries and international comparator groups. The education budget is primarily financed through domestic resources. In FY2022, public education spending from the national budget totaled UGX 3,629 billion,[31] while development partners contributed UGX 83 billion.[32] Local governments are encouraged to top off transfers from the central government with locally mobilized resources, but these revenues represent a small fraction of the consolidated budget. Public education spending equaled 2.7 of GDP in 2021, far below both the 4.2 percent average for selected East African countries and the 4 percent minimum level recommended by the Education 2030 Framework for Action (Figure 11).[33] Education spending represented 11.3 percent of total government spending in 2021, also the lowest level among regional peers and below the Education 2030 benchmark of 15 percent (Figure 12).

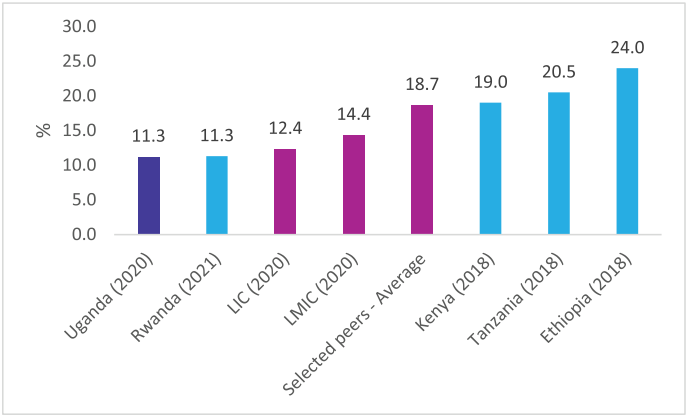
61. Public education spending per student at the primary, secondary, and tertiary levels is consistently below the regional average. As a share of GDP per capita, the per-student government expenditure across all levels of education are below the regional average, including tertiary education. Uganda spends the equivalent of 3 percent of per capita GDP at the primary level, far below the regional average of 9 percent. Public spending per student at the secondary level is equal to 10 percent of GDP per capita, also well below the regional average of 19 percent. Even at the tertiary level, where costs are high across the region, spending per student in Uganda is equal to just 63 percent of per capita GDP, whereas the regional average is 98 percent (Figure 13).

Figure 11. Public Spending on Education as a Share of GDP, 2018 or Latest Available Year



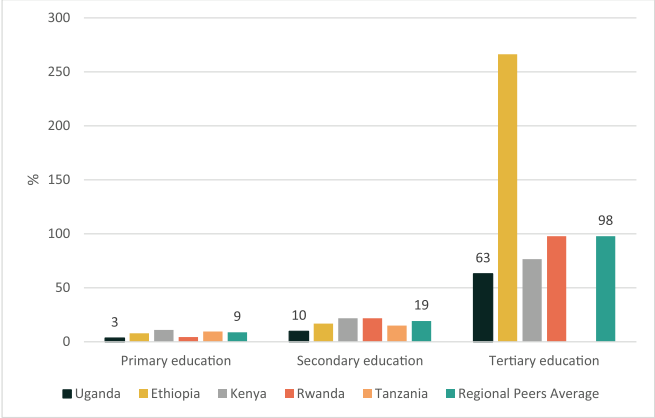
Source: UNESCO UIS (2022)

Figure 12. Public Spending on Education as a Share of Total Government Spending, 2018 or Latest Available Year



Source: UNESCO UIS (2022)

Figure 13. Public Education Spending per Student as a Share of GDP per Capita, Latest Available Year



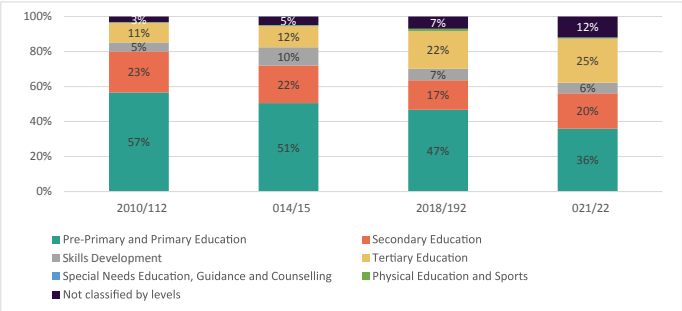
Source: UNESCO UIS (2022)

62. Primary education receives the largest amount of total public funding, but the second-largest amount goes to tertiary education, which tends to benefit students from better-off households. Primary education accounts for the largest share of domestically financed education spending (36 percent), followed by higher education (25 percent), secondary education (20 percent), and BTVET (6 percent). High levels of public spending on higher education raise equity concerns, as students from wealthier households are more likely to be enrolled at the tertiary level (Figure 14a). Indeed, expenditures on higher education are the most regressive of any level.

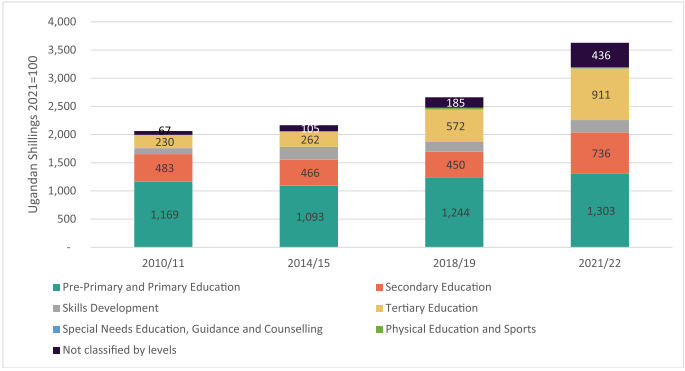
63. Public education spending has grown over the past decade, driven by an increase in expenditures on higher education. Between FY2011 and FY2022, domestically financed public education spending rose by 76 percent in real terms—an average annual increase of 6.9 percent. About 43 percent of these additional resources were directed to tertiary education, especially to finance the establishment of new universities in sub-regions without them. Another 24 percent of expenditures were not classified by education level (Figure 14b).[34] As a result, average spending per student has risen at the tertiary level while declining at the primary and secondary levels (Figure 15).[35]

Figure 14. Public Spending by Education Level

a) Percentage distribution

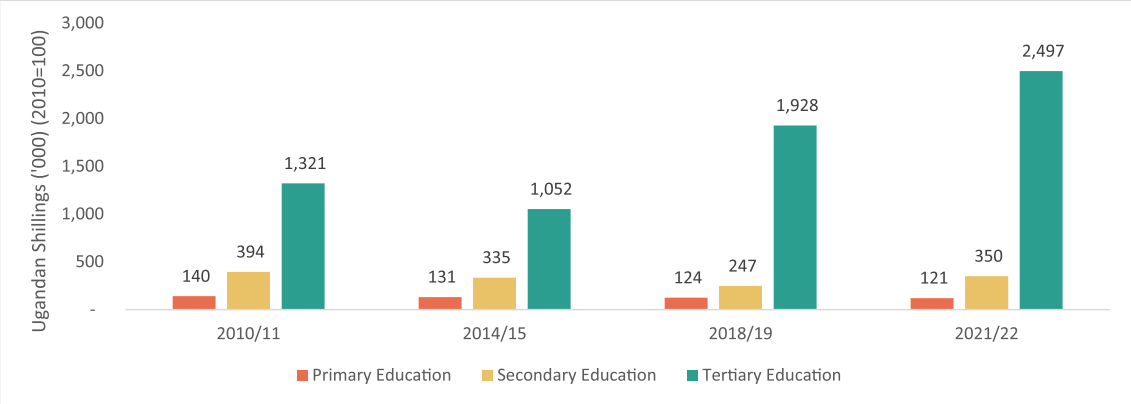


b) Expenditures in 2021 prices (millions)



Note: Domestic funding only; excludes external financing and arrears
Source: World Bank based on Annual Budget Performance Reports from the Ministry of Finance

Figure 15. Public Spending per Student by Education Level, 2010/11 – 2021/22



Note: Enrollment in 2018 and 2021 was projected using 2011-2016 trend.
Source: World Bank based on Annual Budget Performance Reports from the Ministry of Finance and MoES fact sheets and the 2020 school census.

34 Expenses not classified by level of education include resources to support national policies and programs under central agencies such as the MoES, the Uganda National Examinations Board, the Kampala Capital City Authority, the National Curriculum Development Centre, and the Education Service Commission.

35 This report follows the methodology for calculating expenditures per student established by UNESCO, which facilitates cross-country comparisons. A recent report by MoES using a different methodology found higher expenditures per student, though spending was still low at the primary level. These methodological issues are discussed in the full PER.

64. Wages account for the largest share of public spending on education, but Ugandan teachers are not well compensated relative to comparably educated workers. Over most of the past decade, wages represented about 62 percent of the total education spending, above the regional average of 49 percent. At the primary and secondary levels, wages account for 79 percent and 58 percent of expenditures, respectively. However, salaries for teachers with a university degree are 37-42 percent lower than the national average salaries for other professionals (Figure 16 and Figure 17). While not all teachers at the primary level currently have a university degree, teacher compensation will be an important consideration as Uganda moves toward requiring all pre-primary and primary teachers to have a degree under the 2019 Teachers Policy. Raising teacher salaries without implementing other reforms to increase professionalism and accountability will likely have little or no impact on learning, but compensation is an important incentive that the government can use to attract the best candidates into teaching.

Figure 16. Ratio of Teacher Salaries to Earnings of Similarly Educated Workers by Highest Degree Completed and Age Group, 2019/20

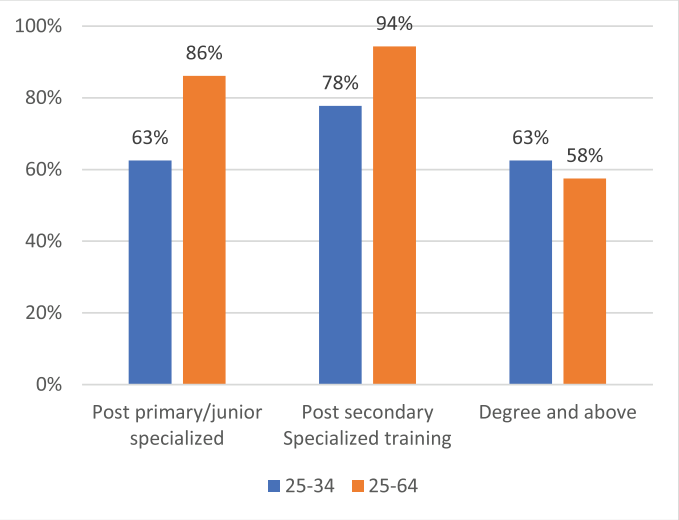
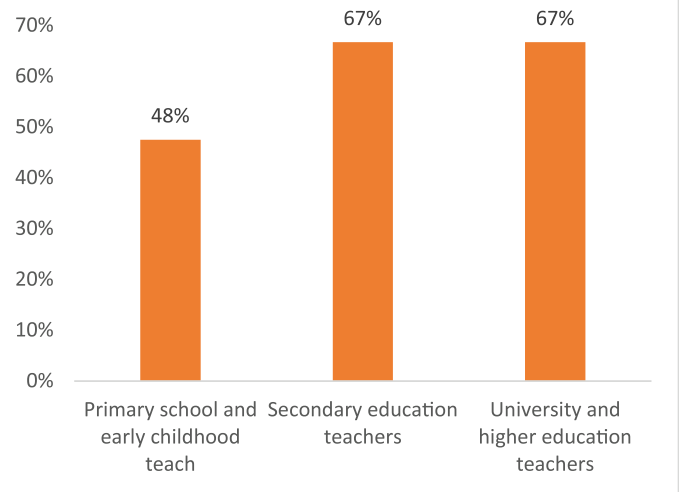


Figure 17. Ratio of Teacher Salaries to Earnings of University Educated Workers by Level of Instruction, 2019/20 (25-64 Years Old)



Source: World Bank based on Uganda National Household Survey, 2019/20 (median salaries for teachers and similarly professionals had the same trend before and during COVID.)

65. Complementary investments in infrastructure, materials, and teacher training are also crucial to improve learning outcomes but have not kept pace with increases in enrollment. Uganda's non-wage recurrent expenditures, which finance items that enhance learning such as textbooks and other teaching materials, are lower than in peer countries.[37] Capital expenditures have increased but remain inadequate to address the country's severe infrastructure challenges. Capital expenditures now average 14 percent of total domestic and external education spending, with a sharp increase after 2018. Nevertheless, an uptick in classroom construction has not kept pace with the vast increase in enrollment. At the primary level, the average pupil-to-school ratio has steadily increased, rising from 582 in FY2018 to 690 in FY2022, with the fastest growth observed in local government that already had a relatively high ratio. At the secondary level, access indicators performed slightly better than at the primary level until FY2021, as many donor-funded projects have focused on secondary-school construction. Meanwhile, about 26 percent of the existing primary-school classrooms are still in temporary structures.[36]

66. Private spending on education is high, as Ugandan households spend more on education than the government does. In 2019/20, private spending on education amounted to 3.2 percent of GDP, well above the historical average of 2.2 percent for public spending. In other words, for every UGX 1,000 the government spends on education, households spend UGX 1,450. Private spending on education in Uganda exceeds the global average of 1.9 percent of GDP and the levels of regional peers such as Ethiopia (0.3 percent) and Tanzania (1.4 percent).[40] For years, public spending on education has barely kept pace with the growth of the school-age population, which likely compelled households to spend more of their own resources.[41]

67. Household spending per student is high, especially at the secondary and post-secondary levels. Even among students attending government-funded schools, the transition from primary to secondary education often imposes a high cost on households. On average, the cost per student in lower secondary education is nine times the cost in primary education. Household spending per student on post-primary vocational education and post-secondary education is even higher in government-funded schools than in private schools (Figure 18). As a result, households may struggle financially to keep children in school, especially those with many children and with students in advanced levels.

36 Béteille and Evans, 2019

37 See PER for a detailed presentation.

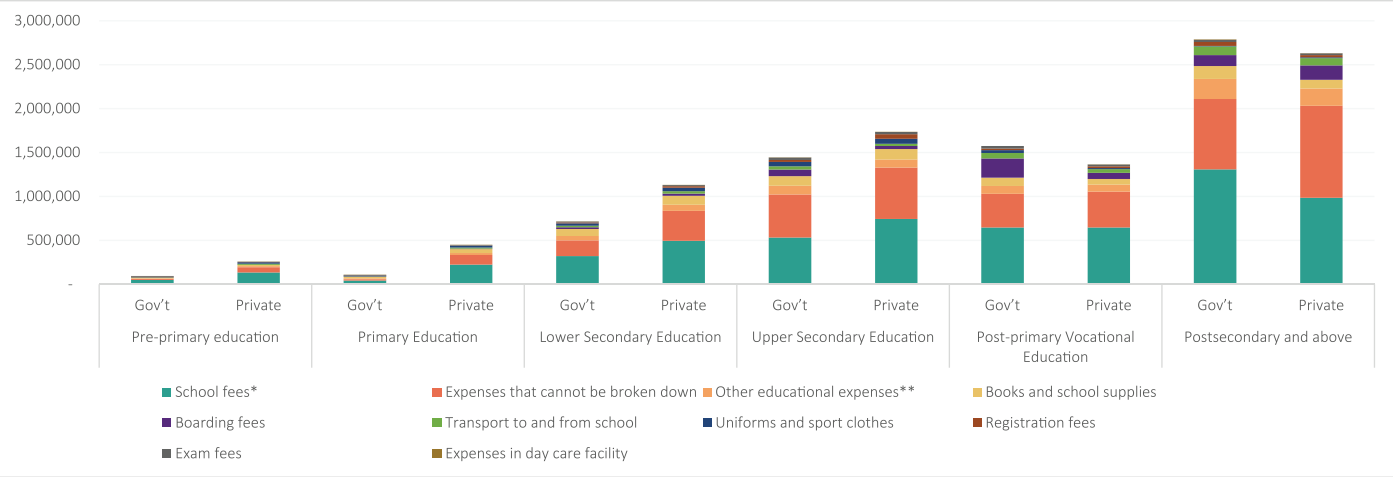
38 ODI, 2022

39 Annual School Census, 2020

40 UNESCO, 2022 (https://www.education-progress.org/en/articles/finance)

41 NPA, 2018

Figure 18. Composition of Household Spending on Education by Level of Education and Type of School, 2019/20



Note: *including contribution to school development fund **e.g., swimming, sports, school trips, pocket money, coaching etc. This figure includes the whole sample (pre-and during COVID-19).
Source: World Bank based in Uganda National Household Survey 2019/20.

68. Despite the public resources devoted to the UPE and USE policies, households still pay school fees in government-funded schools. Household expenditures include direct payment to schools and spending on goods and services required for school attendance. Although households should not have to pay tuition fees at government-funded primary schools, such fees remain common, and they represent a large share of household education spending at all levels of the school system. Books and school supplies are the second-largest category of household spending, followed by "expenses that cannot be broken down."[42] Uniforms and sports clothes, pocket money, and exam fees are the next largest categories. Boarding expenses represent the smallest share of household spending, except among students attending government-funded post-primary vocational schools.

69. The government must substantially increase education spending to cope with population growth and meet its goals for education quality and accessibility. Based on middle-range assumptions for population growth, Uganda's primary-age population is projected to grow from 9.4 million in 2020 to 12.9 million in 2040, while its secondary-age population expands from 6.6 million to 10.6 million. Even under a "business as usual" scenario, in which the system merely keeps pace with population growth, Uganda will need 48,000 more primary teachers, 35,000 more primary classrooms, and 6.2 million more primary textbooks over that period. Maintaining "business as usual" education indicators would cost an additional US$89 million at the primary level and US$50 million at the secondary level each year. Under an "expansion with quality" scenario, which assumes that increased investments improve access and quality in line with the Education Sector Strategic Plan, total education spending would need to increase by more than US$1.1 billion by 2040.[43]

42 The survey instruments do not make clear which items are included in "expenses that cannot be broken down." This category may include school meals, but it may also include payments to a provider (teacher, examiner, etc.) for the delivery of a service that should be free—i.e., bribes. Motivations for bribe-paying in public education may include obtaining good grades, securing a place for a student, or passing a test (Fazekas et al 2021). These expenses may also include extra lessons provided by teachers at a cost outside of school hours, which can have a negative impact on teachers' performance during the school day.

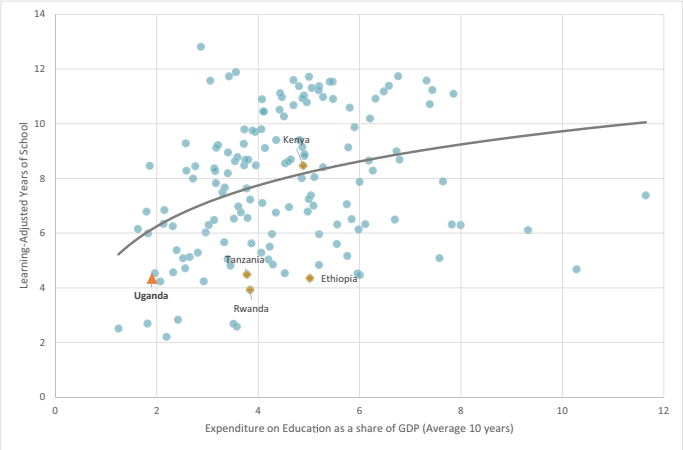
43 World Bank 2021

2.3.2 Efficiency

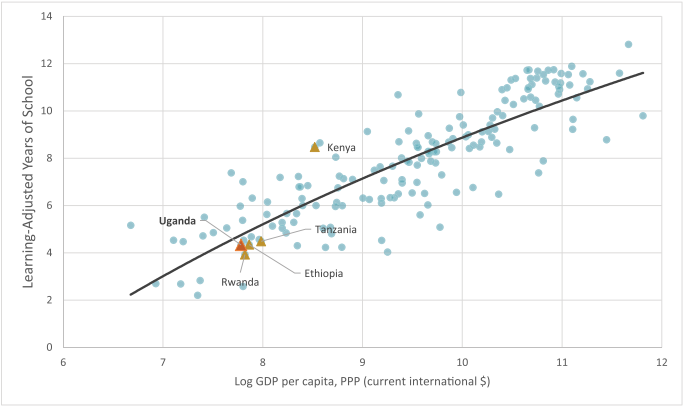
70. While increased spending on education is urgently needed, more could be achieved with current resources through efficiency improvements. Greater efficiency requires that funding be directed to the areas where it can produce the greatest value for money.[44] Uganda and most of its regional peers, except Kenya,[45] have LAYS below the average for countries at similar levels of economic development and with similar spending levels (Figure 19). When GDP per capita, education spending, and the share of the population aged 24 and below are accounted for, LAYS in Uganda are 11 percent below what would be expected. However, the scope for efficiency gains is even much higher, as this comparison is with the average country, not the efficiency frontier.

Figure 19. Learning Adjusted Years of School by GDP per Capita and Education Spending, 2020

a) LAYS vs GPD per capita



b) LAYS vs Education Spending



Source: World Bank based on Human Capital project (HCP) and World Development Indicators (2022)

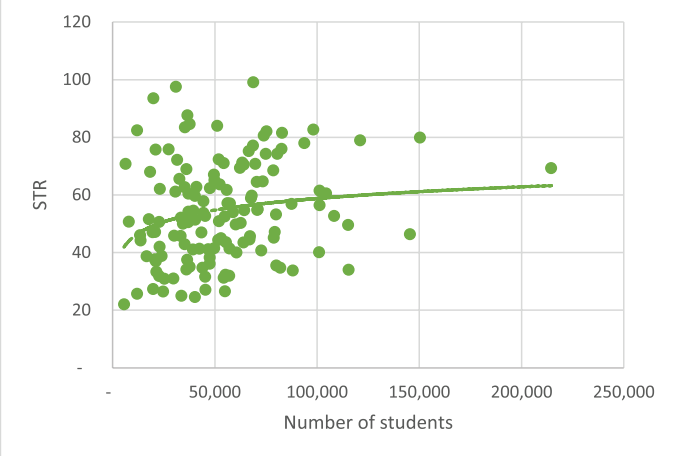
44 OECD, 2017a

45 In the past two decades, Kenya implemented policies to ensure that education is free for everyone, leading to a remarkable rise in enrollment rates. The Free Primary Education policy, introduced in 2003, encompasses the pre-primary level. In 2018, Kenya also abolished tuition fees for secondary schools. The government has since initiated new reforms designed to enhance education quality, which include introducing a competency-based curriculum, reforming teacher management and development, increasing the accessibility of textbooks, infrastructure, and other school resources, strengthening school management structures, and gradually decentralizing management in the Ministry of Education and the Teachers Service Commission to the county and sub-county levels (Cerdan-Infantes and De Andrade 2022).

71. At the primary level, efficiency could be improved by investing more in pre-primary education. Indeed, such a policy would likely pay for itself over the medium term. RTI Uganda Early Years Study suggests that actual repetition rates may be even higher than those reported in official statistics and that students who did not attend pre-primary were 3.8 times as likely to repeat a grade as students who did. The RTI study finds that these inefficiencies cost the government US$177 million per year. In addition, the RTI model projects that investments in pre-primary education, combined with qualitative improvements in primary education, could pay for themselves in 12 years by reducing repetition rates.

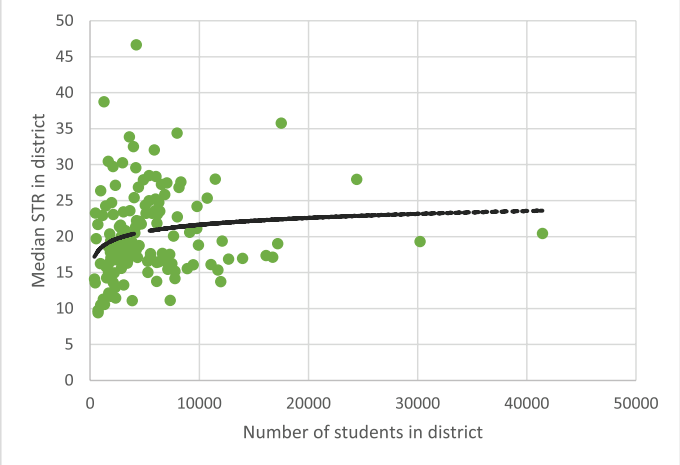
72. Teachers are not distributed efficiently across or within districts. In government-funded schools, the average student-teacher ratio (STR) at the primary level is 53, which is consistent with national standards. However, both at the primary and secondary levels, districts with a similar number of students have different average STRs: some districts have over 100 primary students per teacher, while others have fewer than 30 (Figure 20). A similar pattern is evident at the secondary level (Figure 21). Some districts have an acute deficit of teachers in almost all their schools, while other districts have a surplus, and in some the existing teachers could be reallocated across schools. Nationwide, 47 percent of schools have a deficit of teachers, while 37 percent have a surplus.[46] While recruiting and retaining teachers is typically more of a challenge in rural areas, due in part to limited resources and opportunities for families, there is little relationship between district populations and STRs. Disparities across districts likely result from the allocation of wage grants to local governments "on the basis of a bargaining process with little transparency between the central government and local governments."[47] The inefficient distribution of teachers also raises equity concerns on public spending.

Figure 20. Number of Students per Teacher and Total Number of Students in Government-Funded Primary Schools by District, 2020/21



Source: School census, 2020 (September 30th)

Figure 21. Number of Students per Teacher and Total Number of Students in Government-Funded Secondary Schools by District, 2020/21



46 Weatherholt et al, 2018

47 Refer to the PER for a more detailed analysis.

48 Fraser and Lockheed, 2021

Primary school pupils during their break time, Derrock Ssenyonyi, 2023

73. Chronic teacher absenteeism compromises education quality and reduces spending efficiency. Inefficiency of public spending can be estimated by multiplying the average primary teacher salary by the number of teachers chronically absent from their classrooms. According to the most recent Service Delivery Indicators Report for Uganda, 23.3 percent of public school teachers were absent from work and 52.3 percent were not teaching in the classroom when the survey was conducted. In other words, 47.7 percent of public school teachers were not actively teaching at any given time. [49] This indicates an efficiency loss of about UGX 449.5 billion in FY2019, representing 12 percent of the total public education expenditure.[50] More recent work has confirmed the scale of the problem and identified means to address it. A 2023 government report estimated losses from foregone instructional time at UGX 1.5 trillion and noted the problem of "moonlighting," where teachers take on additional jobs to supplement their income. A study in Hoima and Mityana Districts found that absence rates of 25 percent are a social expectation among teachers and that interventions such as structured meetings where teachers deliberate on the importance of attendance can help change norms and reduce absenteeism.[51]

74 Corruption and persistent problems with "ghost accounts" are important sources of efficiency losses. An empirical study aimed at estimating the cost and extent of corruption in Uganda's education sector exposed various practices that reduce the impact of public spending, including the payment of bribes to education providers for the delivery of a service that should be free (UGX 39.1 billion), the diversion of funds or supplies intended for public education (UGX 244.6 billion), and the employment of unqualified teachers (UGX 16 billion), among others.[52] Eliminating these practices could yield an annual savings of nearly UGX 299.7 billion, equal to about 10 percent of total government education spending in 2019. In addition, an estimated UGX 50 billion is lost each year to "ghost accounts," which refer to schools and teachers that receive payments but do not exist, are duplicates, or are not providing services.

75. The lack of a sustainable, accountable, and efficient education management information system (EMIS) inhibits efforts to enhance service delivery. Currently, Uganda's EMIS is being upgraded to track enrollment, dropout, and retention rates and to uniquely identify students, teachers, and institutions. The new system will be connected to the National Identification and Registration Authority (NIRA) database for all bioinformation, and all students will have identification numbers. The EMIS is linked to the Uganda National Examinations Board and other educational testing bodies to analyze performance, and it incorporates other variables such as infrastructure, instructional materials, nutrition, and water, sanitation, and hygiene.[53] An effective EMIS is necessary to support overall education management and can lead to greater student achievement and a stronger education system. The implementation of unique identifiers for students, teachers, and schools is also crucial to address the problem of "ghost accounts."

76. School supervision is inadequate to enforce education standards and support the delivery of quality services. Both the Directorate of Education Standards at MoES and local governments are acutely underfunded and unable to ensure reliable school-level supervision. In 2021/22, the budget for school inspections was UGX 112,000 per primary school, but the minimum cost of such inspections was estimated at UGX 152,292 in 2018. Finally, under the Teacher Development and Management System, Uganda is divided into 539 Coordinating Centers, which are managed by Coordinating Center Tutors. These tutors are responsible for providing instructional support to teachers in consultation with school leaders. However, many Coordinating Centers are understaffed, resulting in infrequent classroom visits for most teachers.

49 Wane and Martin, 2016

50 In these calculations, only teachers in government-funded schools are considered.

51 Ferraz et al., 2023

52 Fazekas et al., 2021

53 MoFPED, 2022

2.3.3 Equity

77. Education opportunities in Uganda are closely linked with students' household income and place of residence, underscoring the extent to which public education spending does not compensate for socioeconomic disadvantages. Across all education levels, school attendance rates are highest among children from better-off households and those living in urban areas. Net attendance rates for children ages 3-5 range from 57 percent among the wealthiest households to 17 percent among the poorest. At the primary level, attendance rates are relatively high overall, but a significant gap is still evident between attendance among students from the wealthiest households (88 percent) and the poorest households (72 percent). Disparities by household income level and place of residence widen at the lower secondary level, while upper secondary and higher education remain inaccessible to most students from poor households and rural communities (Table 7).

Table 7. Net Attendance Rate by Population Group, 2019/20

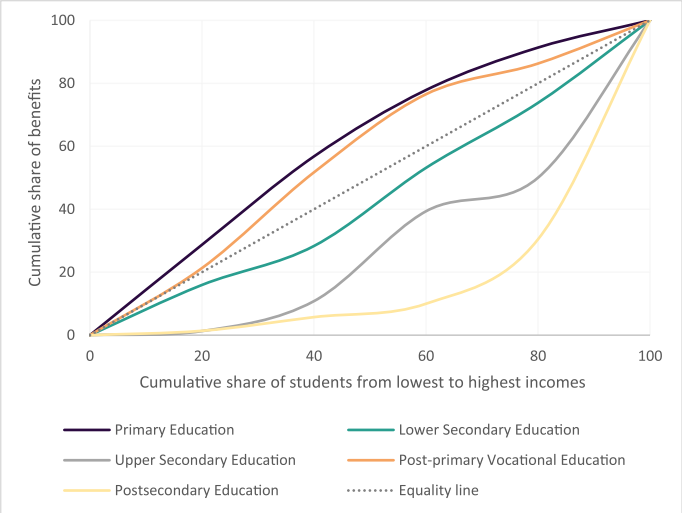
		Pre-Primary Education	Primary Education	Lower Secondary Education	Upper Secondary Education	Post-Secondary and Above
Total		**34**	**81**	**23**	**6**	**5**
Sex	Female	33	82	26	6	5
	Male	35	79	21	6	6
Income quintiles	Quintile 1	17	72	7	1	0
	Quintile 2	28	79	15	2	1
	Quintile 3	33	81	20	4	2
	Quintile 4	44	86	34	6	4
	Quintile 5	57	88	49	17	15
Urban	Rural	30	79	18	4	3
	Urban	50	85	40	11	11
Mountainous Areas	Mountainous	34	80	27	5	4
	Non-Mountainous	34	81	23	6	6
Region	Central	54	82	39	13	9
	Eastern	26	84	20	3	4
	Northern	18	74	8	3	3
	Western	38	81	24	5	4

Source: Ministry of Finance, Planning, and Economic Development

78. Overall, public spending on primary education and post-primary vocational education is pro-poor, but it becomes regressive in secondary education and very regressive in post-secondary education. Benefit incidence analysis is a method used to compare the distribution of public expenditures to the distribution of household income or wealth. Expenditures are categorized as either progressive, indicating that they disproportionately benefit poorer households, or regressive, indicating that most of the benefits accrue to wealthier households. A Lorenz curve can show education expenditures at different levels based on household wealth, taking the distribution of enrollment in government-funded schools and the distribution of government subsidies as a proxy for public spending by income quintile (Figure 22). Regressive expenditures cause the curve to bow downward, while progressive expenditures cause it to bow upward. In Uganda, public education spending is largely pro-poor at the primary and post-primary vocational levels, but it becomes increasingly regressive at higher levels of education. Public spending on lower and upper secondary education tends to benefit better-off students, while public spending on post-secondary education is highly regressive. [54]

54 The regressivity of public spending in tertiary education is also common across most education systems in the world. Inequities in access to tertiary education is determined mostly by factors experienced earlier in life and at preceding levels of education. Most disadvantaged students are under-represented among those students who are eligible to access tertiary level. These include early school-leavers, students who opt for vocational tracks of secondary education which do not give direct access to tertiary education and students who do not meet the required qualifications (OECD 2022).

Figure 22. Lorenz Curve of Education Spending in Uganda, 2019/20



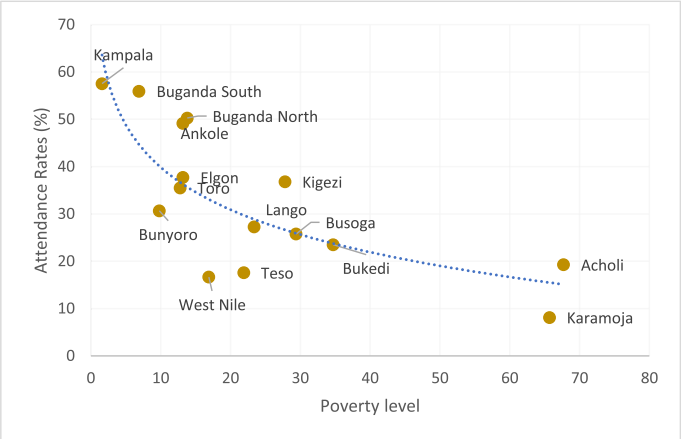
Source: World Bank calculations based on Uganda National Panel Survey 2019/20

Note: The curve's horizontal axis can be interpreted as an ordering of students from poorest to richest, while the curve's height indicates the cumulative spending on students up to that point in the wealth distribution. Students benefiting from public investment either attend a public school or receive subsidies/ scholarship from the government.

79. Poverty rates are closely correlated with school attendance across all levels of education, but the link is weakest at the primary level. Within each subregion, poverty rates are a strong predictor of school attendance at the pre-primary, secondary, and post-secondary levels. However, the disparity is modest at the primary level, as primary education is closer to universal, and out-of-pocket costs are lower than at other levels. Overall, the poorest subregions, such as Acholi and Karamoja, also have the lowest levels of school attendance. Both subregions are located at the northern part of the country. The Karamoja subregion has the highest poverty rate in northern Uganda at 74 percent. The Acholi subregion has the second-highest poverty rate, followed by the West Nile subregion, which is also in the north (Figure 23)[54].

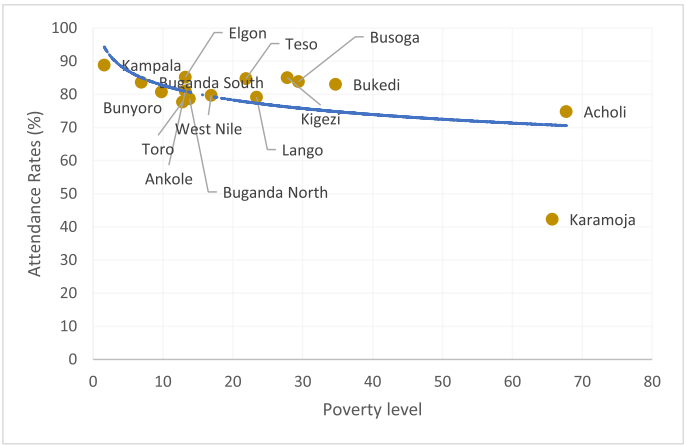
Figure 23. School Attendance and Poverty Rates by Subregion, 2019/20

a) Pre-Primary Education



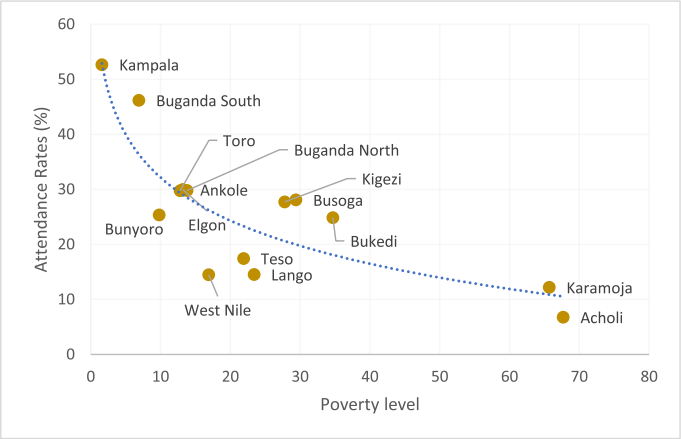
Source: World Bank based on Household Survey 2019/20

b) Primary Education

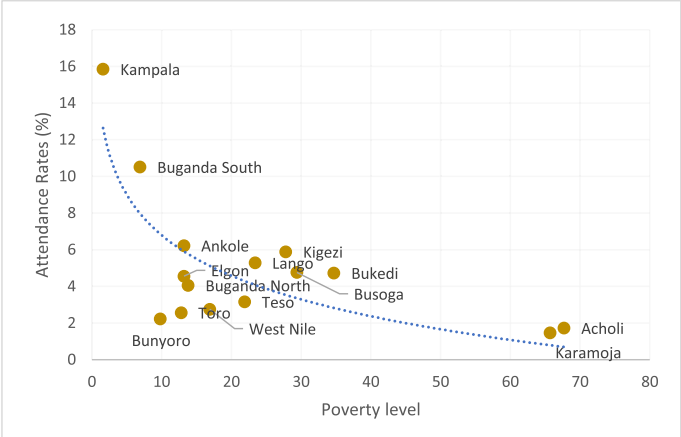


54 The regressivity of public spending in tertiary education is also common across most education systems in the world. Inequities in access to tertiary education is determined mostly by factors experienced earlier in life and at preceding levels of education. Most disadvantaged students are under-represented among those students who are eligible to access tertiary level. These include early school-leavers, students who opt for vocational tracks of secondary education which do not give direct access to tertiary education and students who do not meet the required qualifications (OECD 2022).

a) Pre-Primary Education



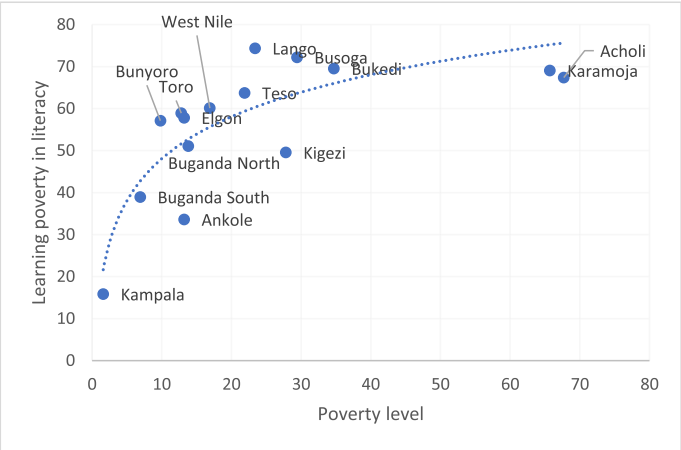
b) Primary Education



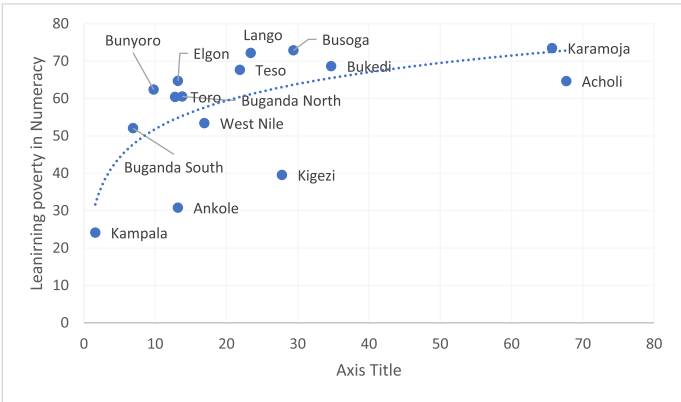
80. Learning poverty, an indicator which covers both access and quality gaps, also correlates with poverty within subregions, even at the primary level.[55] Subregional poverty rates explain most of the variation in learning poverty (Figure 24). Indeed, the poverty rate is a better predictor of learning poverty than it is of access alone indicating that poorer regions suffer from lower education quality in addition to lower access.[56] Addressing imbalances both in education quality and access is crucial to narrow regional disparities and increase socioeconomic prosperity across the country.

Figure 24. Learning Poverty in Primary Education and Poverty Level by Subregions, 2018/2019

a) Literacy



b) Numeracy



Note: Learning poverty is based on the share of students that do not meet the minimum level of proficiency in NAPE P6
Source: World Bank calculations based on P6 NAPE Results 2018 and Uganda National Household Survey 2019/20

55 The World Bank developed an index of learning poverty that combines the shares of children who are out of school, unable to read a simple text, or both. Figure 24 presents a version of this index using the share of students that do not meet the minimum level of proficiency in NAPE P6. However, the results cannot be directly compared with the World Bank indicator because the data on learning outcomes are from different sources, with varying thresholds for proficiency and age groups of students.

56 The amount of variation explained by poverty is summarized in the R-squared (R^2), a statistical measure that represents the proportion of the variance in a dependent variable (education outcomes) that can be explained by an independent variable or variables in a regression model (poverty levels). R-squared ranges from 0 to 1, with a value of 0 indicating that none of the variance in the dependent variable is explained by the independent variables, and a value of 1 indicating that all of the variance in the dependent variable is explained by the independent variables. In general, a higher R-squared value indicates a better fit between the regression model and the data.

81. Uganda's historically inequitable distribution of public spending has tended to reinforce patterns of poverty and disadvantage. In many countries, per capita education spending is significantly lower in poorer regions than in wealthier ones.[57] In Uganda, poorer regions do not necessarily receive more public resources per student, yet the instructional costs of disadvantaged students tend to be higher (Figure 25 and Figure 26). The unbalanced distribution of teachers and per-pupil direct transfers to schools results in a similarly uneven distribution of wages and nonwage expenditures, which exacerbates disparities in access to high-quality education (Figure 27 and Figure 28). Resource allocation criteria have traditionally been input-based, following students, staffing and infrastructure, which tend to be higher in better-off areas. The ongoing reform of intergovernmental fiscal transfers has helped address the inequitable distribution of resources by incorporating parameters of need into the formulas for capitation grants.

Figure 25. Per-Student UPE Grants and Poverty Rates by Subregion, 2020/21

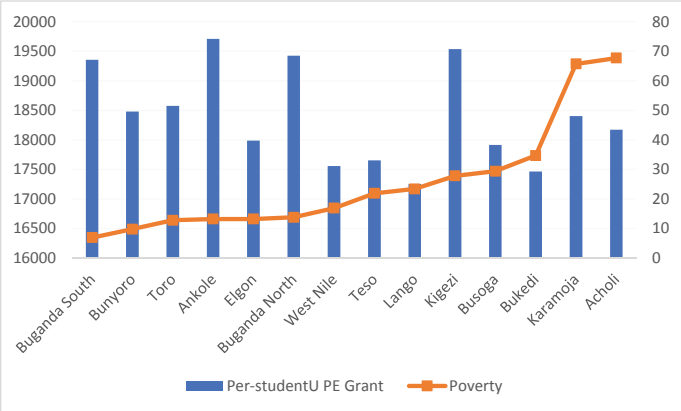
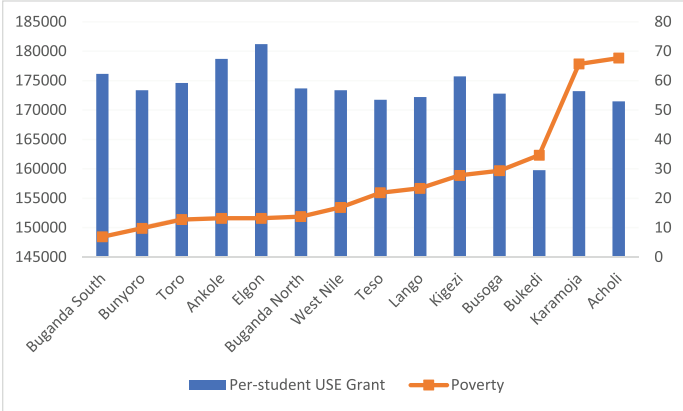


Figure 26. Per-Student USE Grants and Poverty Rates by Subregion, 2020/21



Source: World bank calculations based Uganda National Household Survey 2019/20 and MoFPED (Education IPF).

57 Al-Samarrai and Lewis, 2021

Figure 27. Learning Poverty in Literacy and Student-Teacher Ratios, Primary Education, 2020

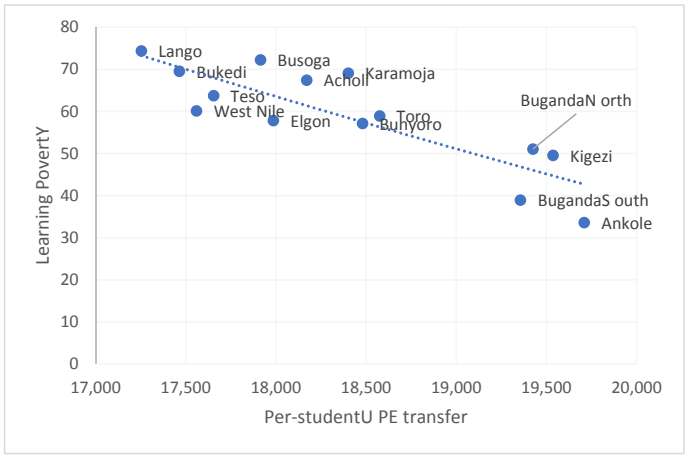
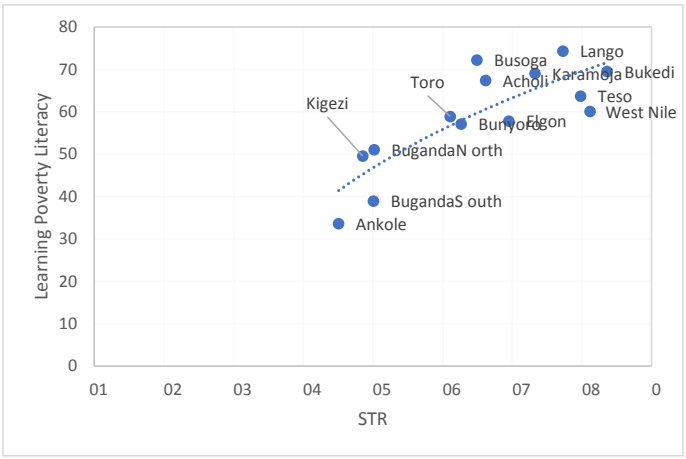


Figure 28. Learning Poverty and per-Student UPE Transfers, Primary Education, 2020/21



Source: World Bank calculations based on P6 NAPE Results 2018, Uganda National Household Survey 2019/20, school census 2020 and MoFPED (Education IPF).

82. Under the Ugandan Intergovernmental Fiscal Transfers (UgIFT) program, the government has been working to address large disparities in the availability of key staff across local governments, but further efforts will be necessary. The UgIFT program aims to improve both the adequacy and equity of wage-budget allocations to local governments, enabling them to hire more teachers and increase staffing to a minimum level. Staffing gaps among local governments were estimated to inform the minimum staffing requirements. Local governments with PTRs above the minimum are required to recruit extra staff to reach the target by the end of the program. However, the extra staff needed to satisfy the national standards would exceed the available resources provided by UgIFT. Therefore, the government will have to create additional fiscal space and introduce more sustainable mechanisms to encourage an equitable distribution of teachers both between and within districts. The UgIFT program also includes measures to strengthen the recruitment, deployment and management of teachers.

2.4 Recommendations

83. This section concludes with recommendations to address the cross-cutting issues of low, inequitable, and inefficient public investment in education. Five high-level recommendations are presented with short-term, medium-term, and long-term actions. The selection of the recommendations and actions are based on the following criteria:

i). *Address the main challenges identified in the analysis.* The table below maps the recommendations to the main challenges in adequacy, efficiency, and equity. In most cases, actions address more than one challenge. For example, implementation of pre-primary education would address efficiency (by reducing early grade repetition and dropout) and equity (by ameliorating differences in readiness for school rooted in household ability to pay for privately provided pre-primary education).

ii). *Aligned with the direction of Government of Uganda policy.* The recommendations prioritize actions that align with NDP III priorities such as building primary schools in underserved areas (1c) and implementing EGR nationwide (3d), and project ideas such as piloting one year of government-financed pre-primary education (2b). Other actions support key policies and strategies such as the 2019 Teachers Policy (recommendation 3), digitization strategies such as the draft Digital Agenda Strategy in education (recommendation 4), and efforts to implement compulsory free education for all (recommendation 5).

iii). *Based on Uganda-specific and international evidence.* The recommendations draw from the 2023 PER, the World Bank's 2021 study *Tackling the Demographic Challenge in Uganda,*[59] and GoU research cited throughout the Update. When relevant it also draws on summaries of international evidence, including Evans and Beteille (2019) on teachers (Recommendation 3) and the Global Evidence in Education Advisory Panel's (GEEAP) 2023 review of rigorous international evidence (in particular supporting actions 1c, 2b-c, and 5a).[60]

iv). *Sequenced for phased implementation and in recognition of Uganda's fiscal challenges in the short run.* Given immediate fiscal constraints, the short-term actions focus on reversing downward trends in per-student expenditures (1a), policy and feasibility study (2a), relatively low-cost but high-impact actions (3b, 5a), regulatory changes (3a) and fully implementing government initiatives in progress (4a). The medium- and long-term actions complement and support implementation and scale-up of these early actions.

Recommendation	Related Challenges	Actions
Gradually increase education spending to reflect an "expansion with quality" scenario, prioritizing basic education and skills development over further increases in tertiary education.	Adequacy Efficiency Equity	Short term (1 year) 1a. Reverse the decline in per-student spending on basic education by ensuring the adequacy of grants Medium term (2-5 years) 1b. Increase capitation grants to levels recommended by the National Planning Authority and provide grants to schools awaiting grant aid 1c. Expand primary-level infrastructure in underserved areas to complement externally financed projects in secondary education 1d. Increase BTVET allocations and consider establishing a training fund to provide dedicated resources, e.g. through a levy Long term (5+ years) 1e. Ensure education expenditures are on a path to achieve the goals of the "expansion with quality" scenario by 2030

58 ODI, 2022
59 World Bank, 2021b.
60 Banerjee et al., 2023.

Recommendation	Related Challenges	Actions
Introduce one year of quality pre-primary education provided through the public education system.	Efficiency Equity	Short term (1 year) 2a. Conduct a policy review and feasibility study Medium term (2-5 years) 2b. Pilot, evaluate, and begin to implement one year of pre-primary education, either directly in public schools or through public-private partnerships or subsidies
Comprehensively reform the teaching profession, taking into consideration not only compensation and accountability but also support for teachers.	Efficiency Equity	Short term (1 year) 3a. Adopt a more transparent and formula-based approach to allocate teachers, reduce variance in STRs across districts and subregions 3b. Provide sufficient funding for CCTs Medium term (2-5 years) 3c. Gradually increase teacher salaries while strengthening merit-based recruiting and accountability measures (e.g., a probationary period) 3d. Ensure all pre-service and in-service training incorporates at least 50 percent hands-on practice, beginning with EGR 3e. Use technology to ensure frequent and coordinated classroom support visits Long term (5+ years) 3f. Align teacher salaries with those of workers with comparable education, experience, and working hours
Leverage technology to reduce other inefficiencies in the system.	Efficiency Equity	Short term (1 year) 4a. Roll out the revamped EMIS and strengthen the implementation of the Teacher Effectiveness and Learner Achievement (TELA) system Medium term (2-5 years) 4b. Ensure integration across data systems 4c. Use data to determine grant allocations, improve equity, and strengthen performance-based funding 4d. Use EMIS to pilot an early warning system to reduce dropout rates
Take actions to reduce the out-of-pocket costs of education borne by households and other barriers to participation.	Adequacy Efficiency Equity	Short term (1 year) 5a. Pilot low-cost outreach and behavioral-change campaigns designed to encourage enrollment and retention, including for pregnant girls Medium term (2-5 years) 5b. Revisit the role of the Primary Learning Examination and deescalate the high-stakes examination culture 5c. Implement free and compulsory UPE and USE by providing adequate public support for school functions currently financed by fee

Source: World Bank based on the Uganda National Household Survey 2019/20.

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